1999 Financial and Environmental Performance

Nexfor

How we excelled in 1999

Best ever safety performance
Nexfor's safety performance reaches record levels – the seventh consecutive year of improvement.

Acquiring 100% of CSC
Nexfor increases ownership to 100% of U.K.'s leading panelboard producer, CSC Forest Products.

Divesting non-core assets
Nexfor sells its 50% interest in Northwood Inc., and 79% of its Québec hydroelectric assets. The sales generate net proceeds of $500 million.

Building new OSB mills
A new US$115 million OSB mill in South Carolina is completed for start-up in early 2000. Nexfor begins construction of its sixth North American OSB mill in Alabama, scheduled for start-up in 2001.

Recognition awards
Nexfor's Fraser Papers receives customer appreciation awards from Bell Atlantic and Spicers Paper.

Achieving top quartile performance
Nexfor reaches the top quartile of North American forest industry performance, with a return on capital employed of 22%.

New senior management team
Dominic Gammiero is appointed President and Chief Executive Officer and K. Linn Macdonald is appointed Chairman. Norbord, Fraser Papers, CSC and the Nexfor Technology Centre are all strengthened by management changes.

Record building materials earnings
Nexfor's North American Building Materials sector posts record operating earnings of $264 million.

Margin improvements
Company-wide margin improvements reach $66 million over 1998.

New MDF line in the U.K.
A new £50 million MDF production line is commissioned at Cowie, with one of the industry's fastest start-ups.

Environmental stewardship
Nexfor begins a program to certify all forest management activities by the end of 2001. West Carrollton and Thurso receive ISO 14001 environmental registration.

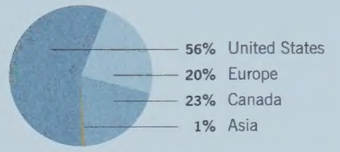
Paper and pulp specialties increase
Madawaska specialty papers mix increases to 73%. Thurso specialty pulp sales increase 190% from 1998 levels.

Common share buy back
Nexfor repurchases 2.5 million common shares at a cost of $16 million, under a normal course issuer bid.

Building Materials

	1999		1998	
	Net Sales ($ millions)	**Shipments** (volumes)	Net Sales ($ millions)	Shipments (volumes)
Lumber	**433**	**954**	390	957
OSB	**400**	**7,876**	317	7,740
Plywood	**90**	**914**	77	862
MDF	**72**	**1,718**	75	1,571
Particleboard	**74**	**2,485**	81	2,394
Other	**190**	–	165	–
Total	**$ 1,259**		$ 1,105	

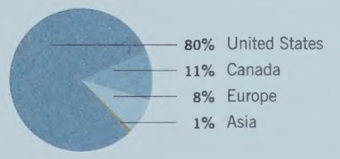
Market Distribution for North American Building Materials and European Panels



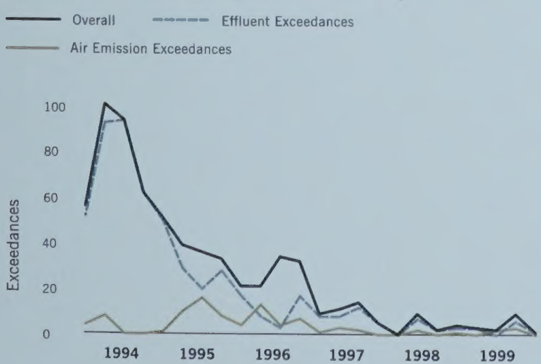
Paper and Pulp

	1999		1998	
	Net Sales ($ millions)	**Shipments** (000 tonnes)	Net Sales ($ millions)	Shipments (000 tonnes)
Groundwood paper	**210**	**172**	238	108
Woodfree paper	**606**	**413**	605	408
Paperboard	**37**	**53**	34	48
Newsprint	–	–	156	202
Softwood pulp	**134**	**233**	156	279
Hardwood pulp	**146**	**238**	134	226
Other	**5**	–	(23)	–
Total	**$ 1,138**		$ 1,300	

Market Distribution for Paper and Pulp



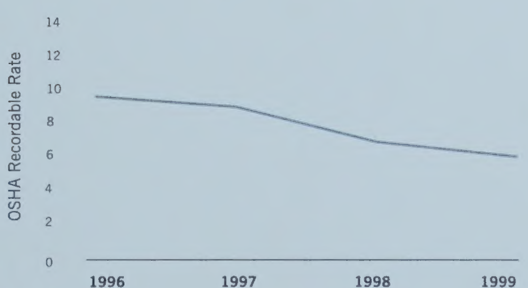
Environmental Compliance History



Of over 20,000 compliance measurements at Nexfor's paper and pulp mills, 15 exceeded regulatory limits.

Safety Performance

Number of recordable health and safety incidents per 200,000 hours worked



Nexfor's safety performance reached record levels in 1999 – the seventh consecutive year of improvement.

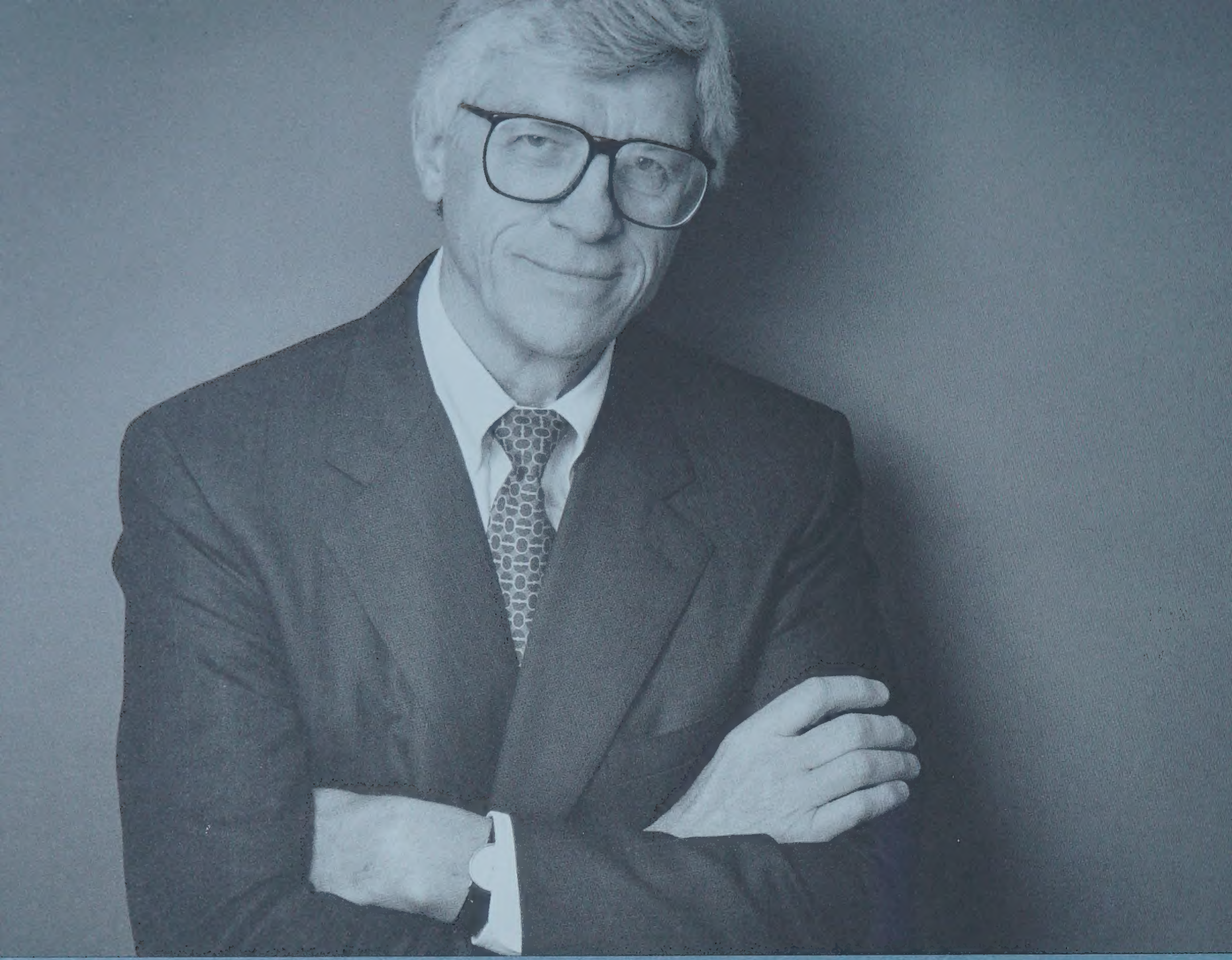
Financial Highlights

Years Ended December 31 (in millions, except per share information)	1999	1998	1997
Operations			
Net sales	**$ 2,431**	$ 2,426	$ 2,272
Operating earnings (1)	**274**	153	98
Earnings	**266**	47	19
Cash provided by operations	**363**	260	169
Capital expenditures	**257**	222	180
Per Common Share			
Earnings	**$ 1.65**	$ 0.22	$ 0.06
Dividends	**0.40**	0.40	0.40
Book Value	**8.22**	6.93	7.29
Stock price (TSE)			
High	**$ 10.15**	$ 10.20	$ 10.50
Low	**5.70**	5.80	7.25
Close	**8.40**	6.05	7.75
Return on Capital Employed	**22%**	15%	11%

(1) 1999 excludes provision for paper and pulp operations.

How is Nexfor doing?

1999 was a year of outstanding earnings and strategic focus for Nexfor. Aggressive actions helped position us among the forest industry's top performers. New leadership and a more streamlined Nexfor provide a solid base on which to continue improving our performance.



How are we evolving?

K. LINN MACDONALD
Chairman

Nexfor enters the millennium in good hands and with a strong focus. In my new role as non-executive Chairman of the Company, which I assumed in October 1999, I want to take this opportunity to share some reflections on how our industry is evolving.

Clearly, we are evolving in many ways, prompted by huge and accelerating changes in the global marketplace.

Economies are increasingly interdependent. Business cycles are no longer predictable. Customer expectations are precise, extensive, and rapidly changing. New forms of communications such as e-commerce and electronic data interfacing are drastically changing the way business is transacted. Heightened environmentalism and toughening environmental legislation have intensified pressure on manufacturing operations. Diversification in business today is seen by many as a liability, not a hedge against specific sector downturns. Cost control is the password to success. Investors are less patient about the performance of their investments. Everywhere, there is an expectation of instant returns, instant success.

While the pace of change has quickened noticeably, our industry continues to flourish. The reasons have to do with how quickly our industry and Nexfor are evolving.

We're using technology more efficiently than ever before to reduce unit costs and utilize the wood resource in the most environmentally responsible way. We're managing forests in a way that protects their future health and sustainability, while acknowledging that public forests must be shared with others. We're introducing products that are specialized for niche uses, offering customers greater choice while providing a higher profit margin.

We continue to compete well with non-wood products despite claims that traditional wood products are under threat from steel, concrete, and plastics, and that paper use is in decline. On the contrary. Demand is on the rise and the opportunities for success have never been greater.

Much has been said and written that productivity in manufacturing industries has ebbed, yet there are abundant signs that our workforce is better educated, more motivated, more accountable, and more productive than ever. We have shown ourselves adept at meeting challenges. But in this next phase of evolution, we must look at ourselves critically and focus on those issues and challenges that still demand improvement.

As an example, Canada is no longer the global player in building materials that it was ten years ago. Our presence in Europe has declined. And our reliance on a strong Japanese market took its toll when the Asian economy faltered. We need to be proactive, and to find innovative ways to pursue non-traditional markets.

“As an industry, we need to be more insightful and less confrontational in the way we address environmental issues. We can count on mounting sensitivity and increased involvement on issues of land use, harvesting practices, Aboriginal rights, and sustainable forestry certification.”

It's also time to acknowledge that manufacturing industries in general have diminished in the public eye, causing us to lose many of the brightest young minds to the appealing high tech and service sectors. We'll need to be more aggressive in positioning ourselves as an industry capable of attracting and retaining quality people.

We have embraced the goal of sustainability. But we still need to be more insightful and less confrontational in the way we address environmental issues. We can count on mounting sensitivity and increased involvement on issues of land use, harvesting practices, Aboriginal rights, and sustainable forestry certification. We can also expect increasingly rigid operating standards, both for older mills and new operations.

Making greater use of our own R&D potential is an ongoing need. We've simply got to work harder in partnership with government to support such outstanding organizations as Paprican, Forintek, and Feric.

Trade issues such as the restrictive Canada-U.S. Softwood Lumber Agreement continue to divide the Canadian industry while punishing American consumers. In the interests of fairness in global trade relations, these distortions cannot continue.

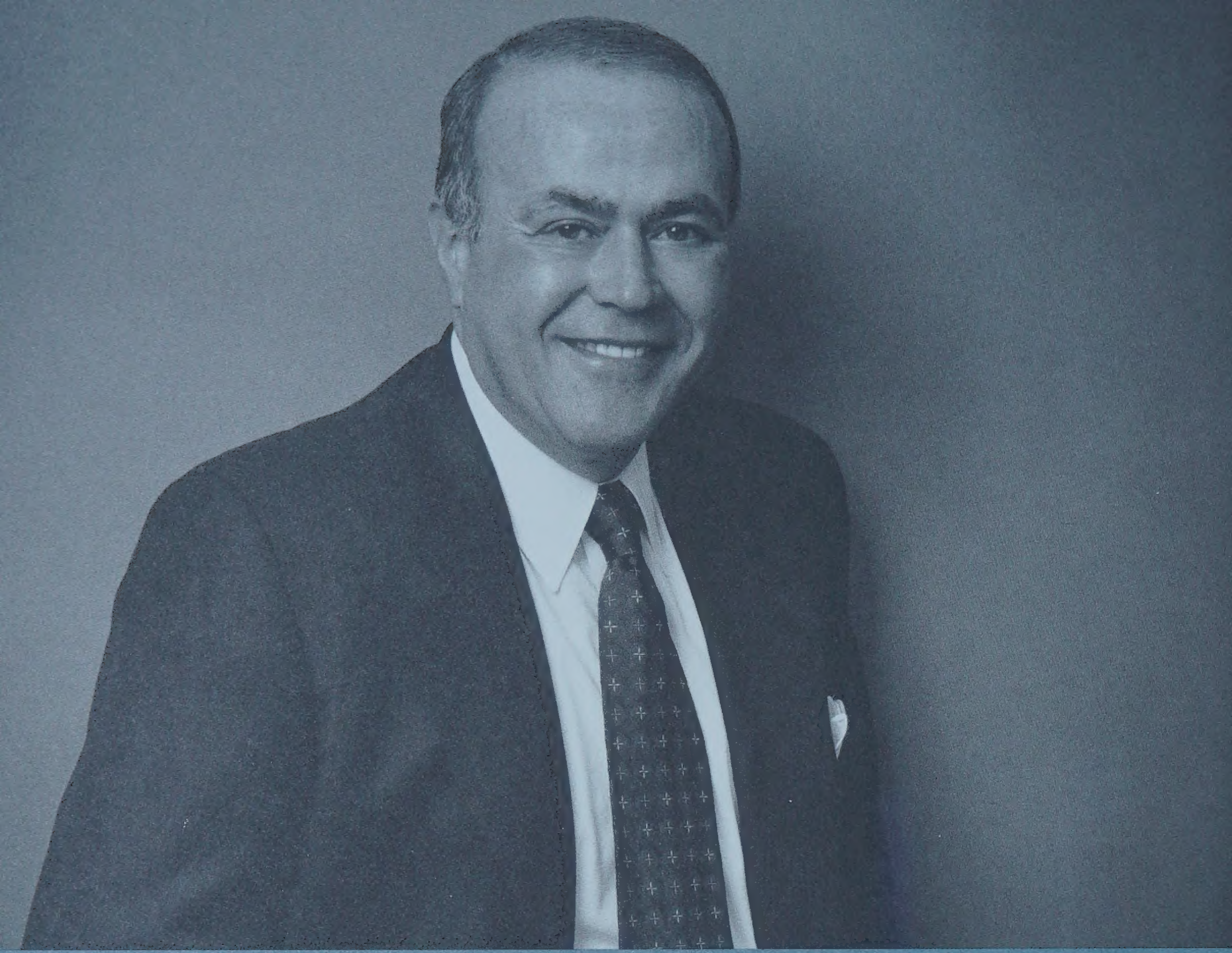
Looking back, I'm proud of how Nexfor has fared. We've made some good decisions, and a few that weren't so good. But as we enter the new century, I can say with confidence that Nexfor is positioned well.

Dominic Gammiero, our new President and Chief Executive Officer, has the experience, the vision, the team approach, and the leadership to make Nexfor a premier player in the global forest products industry.

The last nine years have been the most satisfying of my career. It is fitting that I thank all of my colleagues, our shareholders, and every Nexfor employee for their contribution and support. I am proud to have been associated with you all.

K. L. Macdonald

K. LINN MACDONALD
Chairman



How are we building our future?

DOMINIC GAMMIERO
President & Chief Executive Officer

On Nexfor's performance in 1999

By almost every measure, 1999 was a momentous year for Nexfor. We posted the highest profit in our history thanks to strong building materials markets, continuing margin improvements, and the completion of several key transactions that strengthened our balance sheet and gave us the financial capacity to support future growth of our core businesses. Total earnings were $266 million, which included non-recurring items of $126 million. Excluding the non-recurring items, Nexfor's earnings nearly tripled over 1998 to $140 million. Return on equity increased to 12% (excluding non-recurring items) from 3% in 1998. Our net debt to capitalization ratio was reduced to 18%. Our safety performance based on the OSHA recordable rate improved 20%. Altogether, these achievements placed Nexfor in the top quartile of performance among major North American forest products companies.

On strategic developments

We intend to be less diversified, sell non-core assets at the right time, and focus on further improving and growing our core businesses to maximize growth and financial return to our share owners. That's exactly what we did in 1999, and what we'll continue to do.

We sold the Masson-Angers newsprint mill and our 50% interest in Northwood, and we monetized 79% of our Québec hydroelectric assets. Those divestments generated more than $660 million of cash and temporary investments for Nexfor.

We're reinvesting the proceeds from these divestments into those parts of our business where we have an established strength. In Europe, where we have a distinct foothold, we bought out our joint venture partner and now own 100% of CSC. We invested in a new £50 million MDF line at Cowie to maintain our leadership position, and we're looking at further investments for both the OSB and particleboard portions of CSC's business. Nexfor has had a long-established sales presence in Europe, well before the formation of CSC. It's a market we know well and are strongly committed to.

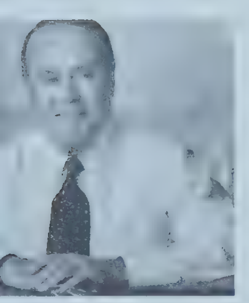
In North America, we completed construction of a new US$115 million OSB mill in South Carolina, which began production in February, 2000. And we've started building our seventh OSB mill in Huguley, Alabama, representing another US$120 million investment. It will be completed early next year. Despite significant capacity additions in OSB in recent years, it is by far the industry's most promising growth product. OSB continues to displace plywood in home construction, while finding a rapidly increasing number of new end uses. Nexfor intends to be at the front of that growth, and given our 20 years of profitable experience in this business, I have no doubt about our ability to perform, even at the low point in the market.

Financially, we're clearly much stronger. We paid off a US$100 million debenture which matured last October. We repurchased more than 2.5 million common shares at a cost of $16 million because we believe the stock represents excellent value.

And we'll continue to repurchase common shares in the open market up to the normal course issuer bid limit. These and other financial management activities are helping to enhance our capital structure and create shareholder value.

On markets and outlook for our products

The record performance we experienced in Building Materials came from strong demand for lumber and panels as a result of healthy U.S. and Canadian housing starts. North Central OSB prices hit record highs of $355 in July, then dropped to still very positive levels by the end of the year. What's most telling about OSB is that consumption was up 6% from 1998, through growth in the overall market and continued displacement of plywood. OSB now makes up in excess of 50% of the total structural panel market. This pattern will continue to support OSB growth in the next several years. Overall, I think we're going to continue to see a robust North American economy and attractive building materials markets, though probably not at the record-setting levels of 1999.



The Paper and Pulp sector was hit by depressed prices in 1999 and our results reflected that. We did not reach our sales targets for text and cover grades. But there are now encouraging signs of recovery. The last six months of 1999 brought firming prices and a return to profitability that bodes well for integrated paper makers like us.

In Europe, we experienced markedly lower prices for MDF and particleboard, mainly because of the strong pound, which encouraged cheap imports. New capacity also came on stream, which added to the oversupply situation. On the other hand, OSB remained strong and continues to gain market share both in the U.K. and on the Continent.

On Nexfor's priorities and future direction

We aim to achieve consistent, top quartile performance in all our businesses. By doing that, we'll provide investors with the returns they expect. We've now shaped the company into three distinct, yet related business units: North American Building Materials, Paper and Pulp, and European Panels.

Within each of these business units, there are specific growth objectives. In Building Materials, we're continuing to grow our North American OSB activities, principally through construction of new mills, but also by appropriate acquisitions that are accretive to earnings, and possible expansion of existing facilities.

We've invested more than $450 million in our paper operations since 1995, largely to grow our specialty paper business. Our focus at this time is to continue increasing our specialty mix while aggressively pursuing further margin improvements and cost reductions. We expect to see substantially better performance in 2000. The financial restructuring charge we took during the fourth quarter of 1999 reflected a permanent diminution in the value of some of our pulp and paper assets.

In Europe, we demonstrated a clear commitment to grow by buying 100% of CSC and investing in a new MDF line. MDF consumption continues to increase, while OSB offers the best opportunity to grow in Europe. Margin improvements and a strengthened management team will be major factors in CSC's performance over the next year or two.

On margin improvements

Margin improvements are the most critical way for companies like Nexfor to maintain competitiveness. They involve four key aims: reduce costs, increase production, improve products and services that add value, and continuously generate new ideas that result in quantum leaps and incremental improvements to the bottom line.

We met our target in 1999 of $66 million in margin improvements, measured against 1998 at constant prices. These improvements were gained through volume increases, improved product mix, and reduced overhead and manpower costs. They did not require capital investment.

Paper and Pulp had margin improvements of $46 million, though much of it did not flow to the bottom line because of low product prices. For example, the Madawaska mill increased its specialty paper ratio to 73% of total production from 64%. Shipments of SC release paper increased 77%. Thermal paper shipments were up 23%. The Edmundston pulp mill had record sulphite production. Thurso increased specialty pulp sales 190%, while achieving certification of its product for photo paper grades. At Park Falls, we reduced manpower by 20%. And we reduced our general administrative and selling expenses by 7%. As paper and pulp markets improve, we'll really see the benefits of these and other margin improvements.

In Building Materials, production records were set at three OSB mills. We made productivity and lumber recovery gains in the sawmills. MDF and hardwood plywood production was up. And we continued to strategically shift our customer base towards the Big Box retailers and large contractor yards.

At CSC, headcount reductions were made at Cowie. We've set aggressive improvement targets in 2000 and expect CSC's pace of margin improvements will accelerate.

On our company's strengths

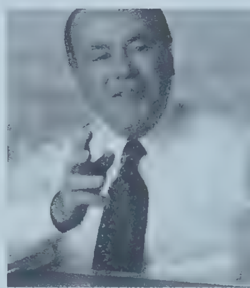
The first strength is financial. As I mentioned, we strengthened our balance sheet, reduced debt, and continued to pay consistent dividends to our share owners. Our assets are well balanced between Canada, the U.S. and the United Kingdom. I see that as a plus. But our strengths go beyond quantitative measurements.

More than any time in our past, we're a leaner and tighter organization. We're constantly benchmarking ourselves against our competitors. Most of our operations are

"We intend to be less diversified, sell non-core assets at the right time, and focus on our core businesses to maximize growth and financial return to our share owners. That's exactly what we did in 1999, and what we'll continue to do."

low-cost producers. We're partnering with customers we can grow and prosper with. We're using the best available control technologies. We're effectively utilizing research and development with organizations like Forintek and Paprican, as well as within our own Nexfor Technology Centre in Pointe-Claire, Québec. We continue to be environmental leaders in our forest stewardship and operating activities. We have safe and healthy workplaces, excellent relationships with employees, communities, and suppliers. Lastly, we understand that all of these strengths are not permanent, but must be worked at and improved upon every day.

On recognition



The best accomplishments are the ones achieved by people. So I'd like to recognize some of them.

Fraser Papers was named Supplier of the Year by Spicers Paper, and received a Supplier Excellence Award from Bell Atlantic. Its woodlands group was awarded top honours by the Pulp and Paper Safety Council. West Carrollton and Thurso received ISO 14001 registration. And, the Paper and Pulp groups' safety performance was world-class.

Norbord operations continue to be among the building materials industry's top performers. Construction of the new Joanna mill was on time and on budget. Customer relations were enhanced by introduction of an Internet-based system to facilitate customer access to shipment information.

CSC continued to invest and retained its position as the U.K.'s largest and most diversified panel producer.

Throughout the company, countless people put in thousands of extra hours readying the organization for a trouble-free Y2K transition.

Key management positions were successfully filled at Norbord, Fraser Papers, Nexfor Technology Centre, CSC, and within Nexfor's corporate management team. Most of these positions were filled internally, a testament to our ongoing succession planning process.

To everyone involved in these and other noteworthy achievements too numerous to list, I extend my sincerest thanks. I'd also like to thank Linn Macdonald, Nexfor's Chairman, for his guidance in ensuring a smooth transition when I took over as President and CEO in October. Lastly, I'd like to recognize our Board of Directors for their active involvement and support of our goals and strategic direction. Our collective efforts continue to be focused towards the objective of creating value for our owners.

Dominic Gammiero

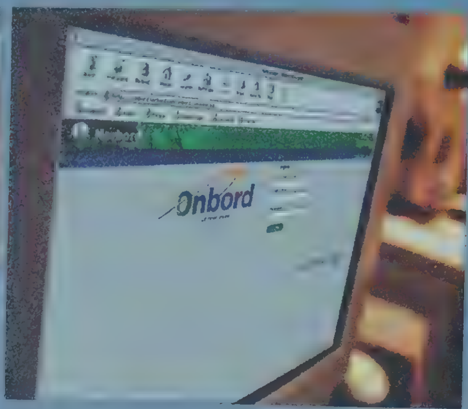
DOMINIC GAMMIERO
President & Chief Executive Officer

how?

How are we building strong customer relationships?

Madawaska is recognized for excellence by Bell Atlantic.

Onbord gives Norbord customers real-time order information.



Caberwood answers the exacting needs of European furniture manufacturers.

"We pursue customer partnerships based on shared goals, the right products and excellent service. When our customers are successful, we're successful."

KATHY TRIPP
Customer Service Manager
West Carrollton, Ohio

How are we building strong customer relationships?

Customer relationships are the cornerstone of Nexfor's success and growth.

In North America, we supply building materials to large retailers and contractor supply yards. We've expanded this critical customer base over the last five years in recognition of industry consolidation, rapid growth of this sector, and changing consumer-buying habits. These customers require intensive service, tight inventory management, and just-in-time delivery. We've also launched a unique Internet-based service called *Onbord*, which provides key customers with 24-hour order and shipment information.

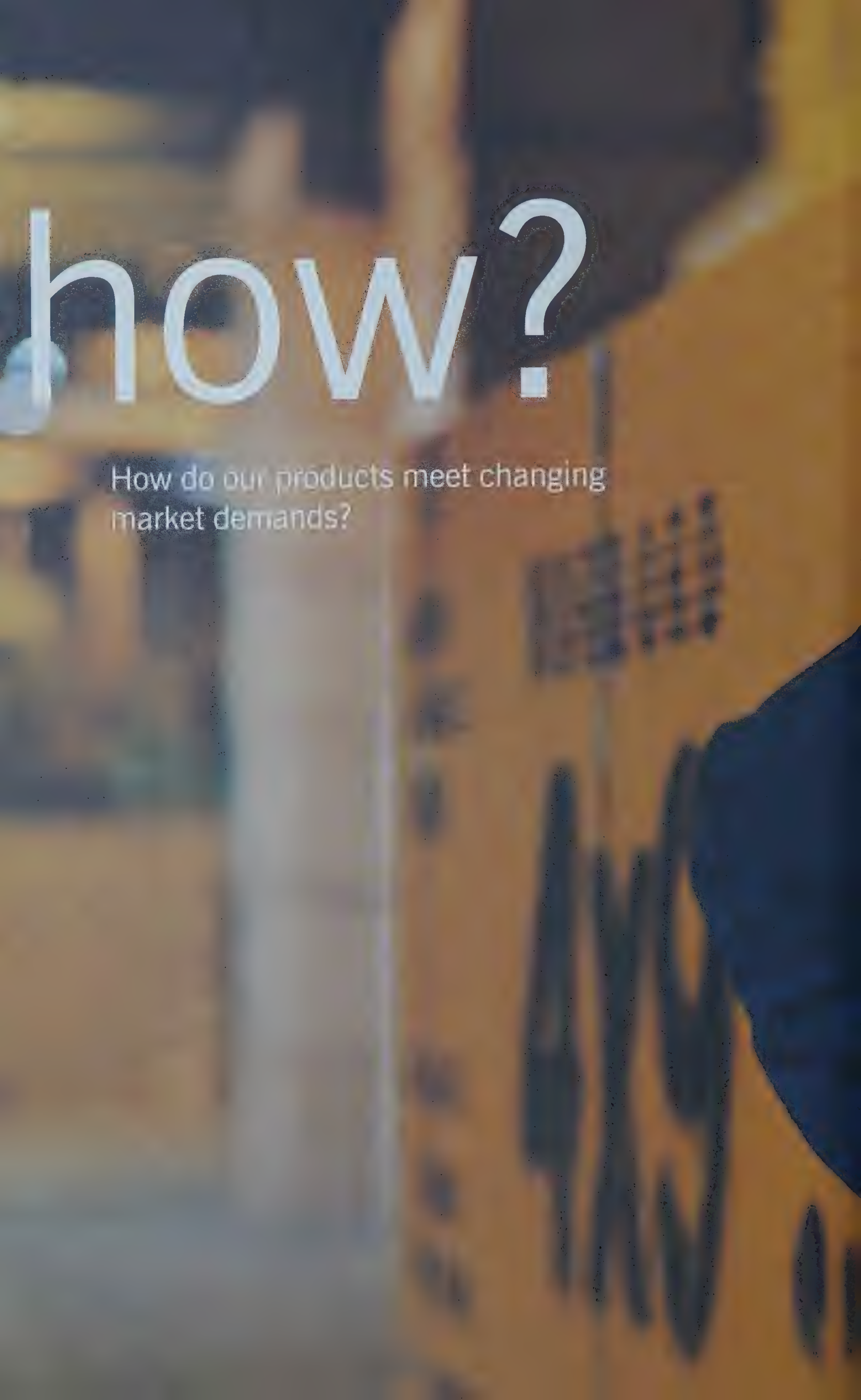
We continue to grow our OSB business. A priority in locating our new mills is that they be within easy reach of North American growth markets. The average distance from these mills to customers is less than 500 kilometres.

Our paper customers are getting more responsive service today because we relocated service personnel from a central location to the mills. This puts customers much closer to actual production, allowing issues to be resolved immediately.

As we move increasingly toward more specialty paper and pulp products, customer support and recognition are the ultimate measures of our success. This year, our progress was demonstrated with supplier appreciation awards from Bell Atlantic and Spicers Paper, and by record orders for our book publishing and financial printing grades.

Recent certification of our hardwood pulp for photographic applications, and our high gloss, coated-one-side packaging paper for a leading pet food producer caps months of collaborative work with customers.

In the U.K., CSC is uniquely positioned to serve customers with its innovative *Fastrack* delivery service and customized manufacturing. *Fastrack* offers quick and dependable delivery of mixed loads of product. CSC's furniture component business relies on continuous communication with major customers to meet their precise specifications.



how?

How do our products meet changing market demands?


Norbord
Real

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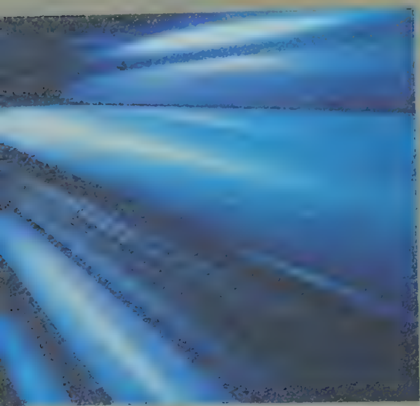
Cowie's new MDF line provides a comprehensive range of [illegible] products.



"We try to set ourselves apart in the marketplace. We identify needs and respond by customizing a product line or developing something unique."

RÉAL MOREAU

[illegible]

How do our products meet changing market demands?

We are enhancing existing products and pursuing new markets to meet customer needs.

In building materials, we are developing markets for a wider range of OSB applications. Value-added products, such as *4x9* and *Webstock*, were introduced at La Sarre to reduce waste and maximize production. The larger *4x9* panels provide sturdier and more efficient walls, while *Webstock* acts as a better-engineered alternative to plywood in the manufacturing of flooring I-joists.

New capabilities at the Deposit MDF mill allow us to supply customers with cut-to-size and higher quality sanded panels that meet their specific requirements. Deposit also produces *Moisture-Resistant MDF* for use in high humidity areas such as bathrooms and kitchens.

CSC developed *Caberwood HP* – a new MDF panel designed for greater flexibility in embossing and other finishing processes used in furniture manufacturing. Also new is *Caberdek* flooring, which features a waterproof, peel-away film that protects floor panels during construction.

Thurso became one of few mills in the world certified to produce photographic-quality pulp. The mill upgraded its plant and processes to meet the stringent requirements for high brightness and cleanliness required by photographic paper producers.

Our Madawaska paper mill received certification for its coated-one-side packaging grade, *Bladepak*. Converted into pet food bags, *Bladepak* is recognized for its superior printability by packaging companies. Super-Calendered (SC) release, another specialty grade at Madawaska, is used in pressure-sensitive applications, such as product labels. SC release shipments increased 77% in 1999, contributing to the mill's increase in total specialty grade shipments to 73% from 64% in 1998.

At Park Falls, we introduced *Magna Carta*, a parchment-like grade used for certificates, awards, and stationery. The mill also launched *Glacier 95*, a premium opaque grade recognized for high brightness and smooth finish. *Glacier 95* is used extensively in corporate brochures and annual reports.

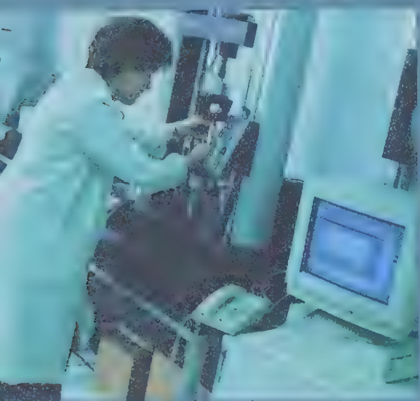
how?

How are we enhancing our performance through technology?

Experiments with wood fibre properties help create a better product.

Sawmill scanners analyze logs to optimize utilization.

Continuous presses at the South [illegible] and Alabama OSB mills will use [illegible] materials and energy.



"We draw on our innovative people across the Company to create improved processes, products and environmental performance. That's how we increase our competitive advantage."

[illegible]
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Nexfor Technology Centre
Pointe-Claire, Québec

How are we enhancing our performance through technology?

Using the best available technology is a sure route to achieving competitive advantage. Our operations, together with the Nexfor Technology Centre (NTC), incorporate leading technologies to develop and refine products, increase efficiency, and improve environmental performance.

Our new mill in South Carolina is one of only three OSB mills in the world to use continuous press technology. At 55 metres long, it will also be the largest press of its kind. Continuous presses help provide a consistent, quality product – made with less raw material, significantly reduced wear on equipment, and less energy. Our combination of the continuous press and conveyor dryers in Joanna will be an industry first, and our new Alabama mill, scheduled for start-up in 2001, will also use these technologies.

At Cowie, the new MDF line offers a comprehensive range of products and has increased production capacity by more than 40% to 330,000 cubic metres a year.

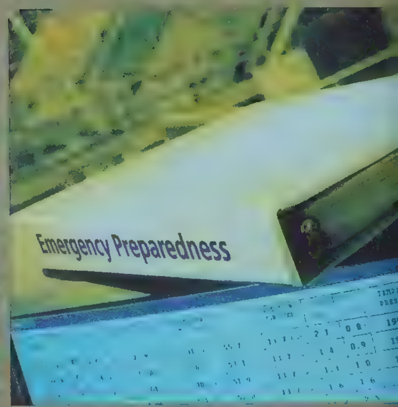
Highly specialized paper production also relies on unique technological applications. For example, Madawaska uses a coater to apply a barrier to its Super Calendered (SC) release grade. This avoids the need for a conventional size press, and allows lower cost production using the widest and fastest SC release machine in North America.

Integration of new technologies is not a recent concept for Nexfor. Our Guntown and La Sarre OSB mills were the first in the industry to use low temperature conveyor dryers to reduce wafer drying emissions and maximize wood yields. Nexfor also pioneered the use of long log flakers, and developed innovative approaches to OSB process and environmental technologies.

Nexfor's technology centre at Pointe-Claire, Québec conducts technology development in five key areas: environment, building materials, paper, pulp, and process control. At the same time, NTC and our operations maintain close ties with some of the world's leading equipment manufacturers to advance new technologies.


how?
How are we protecting employee health and safety?

a consistent emergency plan.



"Continuous training, having current information, and being involved in everything from program planning to evaluation. This keeps health and safety a top-of-mind priority, which is where it needs to be."

NELSON THERIAULT
Machine Operator and
Safety Representative
Madawaska, Maine

How are we protecting employee health and safety?

A "safety first" culture based on extensive training, auditing, and action plans is the reason 1999 was Nexfor's safest year.

Nexfor's lowest-ever accident frequency rate was led by the performance of our paper and pulp operations. Fraser Papers stands among world leaders with an OSHA frequency rate of 2.89. During 1999, the West Carrollton paper mill marked four years and three million man hours without a lost time accident. Innovative team building exercises like Safety Olympics and employee-produced videos kept safety at the forefront of the operating culture.

Ten health and safety audits were conducted as part of Nexfor's comprehensive auditing program, which involves site visits every two years. Mills also create their own auditing initiatives to complement Nexfor's program. Edmundston's STOP (Safety, Training and Observation Program) contributed to its first full year without a lost time accident. STOP also helped the Fraser Woodlands operate without a lost time accident for a record two years.

Auditing and training provides a valuable benchmark for improvement, as does recognition by, and involvement with, our communities. Edmundston, Bemidji, and Senneterre received awards from various safety associations and community organizations this year. Emergency response planning and simulations also partner mills with local emergency services, contractors, and governments to minimize potential risks and identify areas for improvement.

At Cochrane, a newly developed audit system helped the plywood mill earn its standing as the safest of our panel operations. Forty employees are trained to audit the mill up to three times a week, in six specific zones. Guntown had the most improved North American performance.

Cowie recorded the best improvement among all Nexfor panelboard operations during 1999 – more than 71%. Cowie's Cascade System widely communicates safety information each week, while training focuses on employee roles and responsibilities. Instilling a stronger safety culture throughout our European operations is a continuing priority.


Nexfor

how?

How are we meeting our environmental goals?

Primary treatment systems help ensure environmental compliance.

Our environmental management systems are based on ISO 14001 standards.

Nexfor planted over 30 milli seedlings in 1999.

"Nexfor is in the first wave of forestry companies to achieve ISO 14001 registration. It demonstrates our commitment to sustainability – while giving us a way to ensure consistently strong performance."

JULIE CHAGNON
Sustainable Forestry Coordinator
Thurso, Québec

How are we meeting our environmental goals?

Nexfor's environmental stewardship aims for continual improvement, and the integration of environmental actions with everyday operating practices.

Environmental Management Systems (EMS) are currently in place, or in the final development stages, at all mills. Based on the ISO 14001 standard, EMS requires documentation of all environmental activities, and provides a guideline to systematically review and improve our operations. In March, West Carrollton became the first paper mill in the United States to receive ISO 14001 registration. It was followed by the Thurso pulp mill.

Our woodlands operations are pursuing ISO-based forestry certification by the end of 2000. Sustainable forest management is not only a key environmental objective for Nexfor, it is an increasing expectation of customers seeking to ensure their products are derived from a sustainable resource.

Our operations hire professional foresters for their wood procurement activities, and their job goes beyond merely securing wood – they understand the resource. They arrange partnerships with woodlands contractors and suppliers to foster sustainable practices. In the U.S., we encourage wood suppliers to become certified through state-run logger education programs. We also work closely with government and regulatory bodies regarding changes in forest management plans. These actions are particularly important in planning of greenfield operations, where a sustainable fibre supply purchased from third parties is a priority in site selection.

Nexfor collaborates with communities, governments, and industry associations to address shared land use issues. Work with First Nations groups allows traditional forestry practices to be taken into account with forest management planning. We provide counsel to governments and associations on harvesting and sustainable practices. And community-based information sessions keep us connected with a variety of land users, including cottagers, hunters, and recreationalists.

Our ongoing commitment to forestry and the environment is furthered by our sponsorship of the Nexfor-Bowater Centre for Watershed Conservation at the University of New Brunswick. The Centre conducts research and testing on environmental impact of forestry on watersheds and wildlife.

How did we perform?

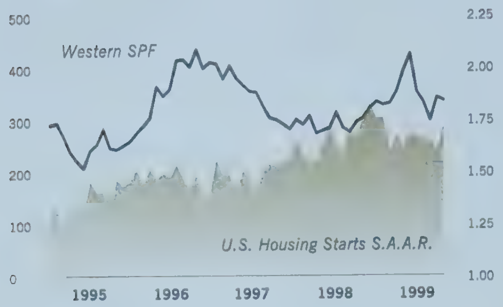
1999 Financial Performance

Management's Discussion and Analysis

1999 Financial Statements

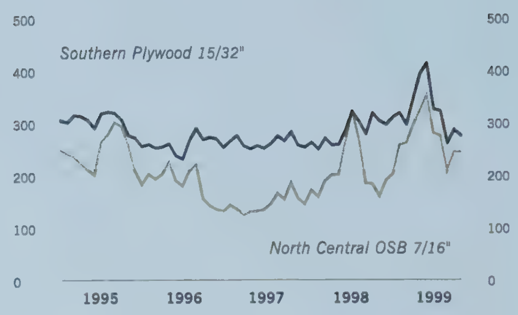
Lumber

Price ($US per Mfbm) Housing Starts (million units)



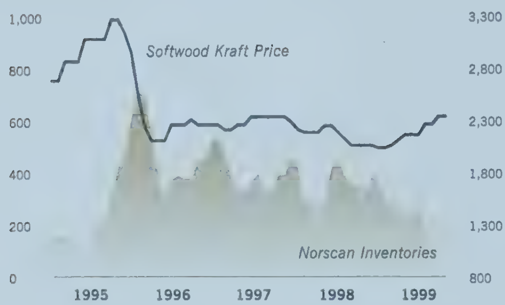
Panels

Price ($US per Msf)



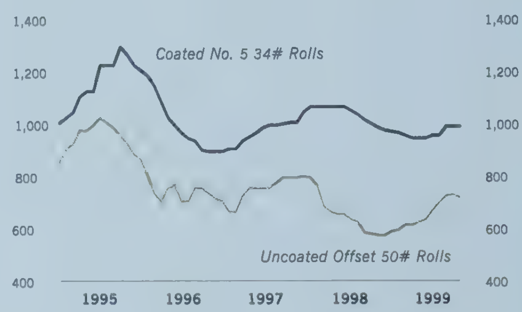
Pulp

Price ($US per tonne) Inventories (000 tonnes)



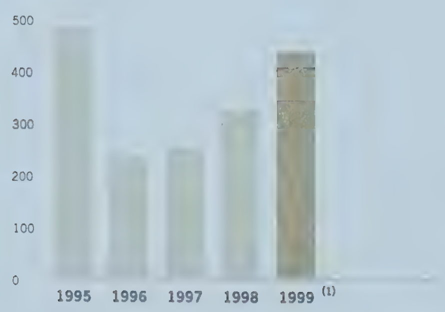
Paper

Price ($US per ton)



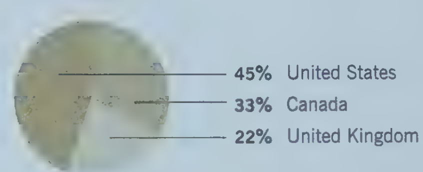
EBITDA

($ millions)



(1) 1999 excludes non-recurring items.

1999 Net Assets Employed



Management's Discussion and Analysis

The Management's Discussion and Analysis provides a review of the significant developments that impacted Nexfor's performance during 1999 relative to 1998. Factors that could impact future operations are also discussed. Such comments will be affected by, and may involve, known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied. To enhance shareholders' understanding, certain five-year historical financial and statistical information is presented. Throughout this discussion "Nexfor" refers to Nexfor Inc. and all of its consolidated subsidiaries and affiliates, and "Company" refers to Nexfor Inc. as a separate corporation. "EBITDA" refers to earnings before interest, taxes, depreciation, and amortization. All financial references are in Canadian dollars unless otherwise noted.

1999 was a year of major change at Nexfor. Following a comprehensive strategic review of all businesses, a number of actions were taken in the latter part of the year that significantly change the face of the Company heading into 2000. These actions are part of an ongoing effort to reduce diversification and bring greater focus to Nexfor's core strengths in North American OSB, specialty papers and European panels. Growth of these businesses will contribute significantly to shareholder value.

Key supporting actions:

- Acquired Sonae-Tafisa's 50% equity interest in CSC Forest Products Limited (CSC) for cash consideration of £50 million and the assumption of £25 million in debt, giving Nexfor 100% ownership of CSC.
- Began construction of a sixth OSB mill in North America for US$120 million, making Nexfor the third largest producer in the world.
- Sold our 50% interest in Northwood Inc. (Northwood) to Canfor Corporation (Canfor) for $240 million cash and $78 million of 6.25% convertible debentures. Canfor assumed Nexfor's $46 million share of Northwood's net debt.
- Sold 79% of the units in a newly created income trust, Great Lakes Hydro Income Fund, for gross proceeds of $275 million, including a $100 million secured loan, bearing interest at 7.5% and repayable before September 2000.
- Reviewed the carrying value of the paper and pulp assets. Based on forecasts of anticipated future cash flows, the Company does not expect to recover its net investment in certain assets. As a result, a pre-tax charge of $244 million was taken against the paper and pulp operations.

Overview

Due to the strategic initiatives and realigned reporting structure of some operations, Nexfor is adopting a new presentation of segments based on the way the Company is organized for making operating decisions and assessing performance. In 1999, Nexfor operated in three business segments: building materials, paper and pulp, and energy. Beginning in 2000, European panels will be reported as a new segment, separate from North American building materials. The remaining 21% interest in the energy facility is expected to be sold in 2000 and its earnings will be reported as other income rather than operating earnings.

At December 31, 1999, approximately 6,200 people were employed at manufacturing facilities in Ontario, Québec, New Brunswick, New York, Maine, Minnesota, Mississippi, Ohio, Wisconsin, Illinois, and the United Kingdom. Construction is proceeding on new facilities in South Carolina and Alabama. Principal operating facilities include:

- Nine panelboard mills
- Five sawmills
- Five paper and pulp plants

Supporting these operations are over four million hectares of timberland, of which 10% are owned. The Canadian non-owned timberland is managed under long-term licences granted by provincial governments. The geographical breakdown of net assets employed at year end 1999 was 45% United States, 33% Canada, and 22% United Kingdom.

Financial Summary

($ millions)	1999	1998	1997	1996	1995
Net sales	**$ 2,431**	$ 2,426	$ 2,272	$ 2,296	$ 2,407
Operating earnings (1)	**274**	153	98	94	366
Depreciation	**162**	167	155	138	113
Earnings	**266**	47	19	27	215

(1) 1999 excludes provision for paper and pulp operations.

Earnings of $266 million, or $1.65 per fully diluted common share, in 1999 were the highest in the 13-year history of the Company, and sharply ahead of the $47 million profit in 1998. The 1998 profit has been reduced by $1 million from that previously reported due to a retroactive change in accounting for non-pension post-retirement benefits.

The 1999 results included three non-recurring items:

- A gain of $108 million ($130 million pre-tax) from the sale of Northwood.
- A gain of $169 million ($202 million pre-tax) from monetization of 79% of the hydro facilities in Québec.
- A $151 million charge ($244 million pre-tax) against paper and pulp operations.

Excluding these items, earnings were $140 million or $0.83 per common share. The acquisition of the remaining 50% equity interest in CSC had no impact on earnings.

The increased profitability in 1999 is mainly due to:

- Strong demand for lumber and structural panels in North America which propelled the building materials segment to a record performance.
- Continued success of the Margin Improvement Program (MIP).

Measured at constant prices and exchange rates, MIP delivered a $66 million improvement over 1998. Approximately 30% of the gain was attributed to volume and 50% to product mix. Cost improvements of $23 million were partially offset by a $10 million increase in depreciation charges. The primary goal of MIP is to achieve a top quartile cash return on capital employed (ROCE) ranking in the North American forest products industry. Nexfor's ROCE increased to 22% in 1999 from 15% in 1998, attaining a first quartile position. ROCE is a key measurement of financial performance as it focuses on cash and the efficient use of capital. ROCE is defined as operating earnings, excluding the paper and pulp provision, plus depreciation, divided by year end total assets less cash and accounts payable.

Return on common equity (ROE), excluding the impact from the two gains and the reserve provision, increased to 12% in 1999 from 3% last year. ROE jumps to 20% if the non-recurring items are included. The Company's goal is to achieve a minimum 12% return over the business cycle.

Operational highlights in 1999 included:

- Reduced serious injury frequency rate by 20% from 1998 to 4.98 per 200,000 hours worked.
- Improved environmental compliance to 99.92% with regulated air and water emission limits.
- Established monthly and annual production records at a number of locations.
- Reduced workforce by 458 positions or 7% over 1998, excluding the sold operations.
- Attained ISO registrations for environmental management.
- Successfully completed all Y2K conversions.
- Increased shipments of specialty paper and pulp products.
- Neared completion of a new OSB mill in Joanna, South Carolina.
- Began construction on a new OSB mill in Huguley, Alabama.

Cash flow from operations, including working capital changes, in 1999 amounted to $386 million, 28% higher than the $301 million generated in 1998 and equivalent to $2.52 per fully diluted common share. Investment activities consumed $62 million, as net proceeds from the sale of Northwood and the hydro facilities were more than offset by capital expenditures and the acquisition cost of CSC. Dividend payments decreased $1 million to $74 million. Common share buybacks totalled $16 million in 1999 compared to $6 million in 1998. After debt repayments, cash and short-term notes ended the year at $159 million, compared to $181 million at year end 1998. In addition, temporary investments at December 31, 1999 of $196 million include:

- $100 million loan receivable from Great Lakes Power Trust.
- $78 million in convertible debentures issued by Canfor.
- $18 million book value of 21% interest in hydro trust units.

The ratio of net debt to total capitalization fell sharply to 18% at December 31, 1999 – the lowest level in the Company's history. The ratio was 34% one year earlier.

Net Sales

Net sales increased to $2.4 billion in 1999, $5 million higher than 1998. Net sales in 1998 included $156 million generated from the newsprint facility in Masson-Angers prior to its sale on December 18. Excluding the newsprint revenue, net sales from comparable operations increased $161 million or 7% in 1999. The sales growth was largely driven by higher prices for OSB and lumber.

($ millions)	**1999**	1998	1997	1996	1995
Building materials	**$ 1,259**	$ 1,105	$ 1,026	$ 1,029	$ 921
Paper and pulp	**1,138**	1,300	1,226	1,251	1,471
Energy	**34**	21	20	16	15
Total	**$ 2,431**	$ 2,426	$ 2,272	$ 2,296	$ 2,407

OSB sales from North American operations increased $78 million in 1999, as average mill nets jumped 27% and shipments rose 1%. OSB prices hit record highs in July driven by:

- Better than expected housing demand.
- Low field inventories.
- Increased OSB substitution for plywood.

Lumber sales grew by $43 million as average price realizations increased 11%. Robust U.S. housing starts were at a 13-year high. Total lumber shipments were flat compared to 1998. Less downtime was taken, but only 46 weeks of Northwood's volume were included in 1999 up to the November sale date.

Paper and pulp sales fell $6 million, excluding the newsprint contribution in 1998. Total shipments of paper and paperboard were 638,000 tonnes versus 636,000 tonnes in 1998, with lower price realizations particularly for coated groundwood grades. Pulp prices increased steadily from mid-year, bolstered by improving world economies and falling Norscan producer inventories.

The $13 million or 62% increase in power sales in 1999 was due to a 6% increase in average external selling prices and a 60% increase in external shipments as a result of the sale of the newsprint mill.

In 1999, Nexfor sold 66% of its product into the U.S., 18% in Canada, 14% in Europe, and 2% to Asian markets.

Net sales increased to $2.4 billion in 1999, largely driven by higher prices for OSB and lumber.

1999 Shipments by Market

	Canada	United States	Europe	Asia	1999 Total	1998 Total
Lumber (MMfbm)	321	601	–	32	**954**	957
OSB (MMsf 1/16")	1,324	5,688	829	35	**7,876**	7,740
Plywood (MMsf 1/16")	416	425	34	39	**914**	862
MDF (MMsf 1/16")	132	794	792	–	**1,718**	1,571
Particleboard (MMsf 1/16")	–	–	2,485	–	**2,485**	2,394
Woodfree paper (000 tonnes)	5	408	–	–	**413**	408
Groundwood paper (000 tonnes)	7	165	–	–	**172**	180
Paperboard (000 tonnes)	43	10	–	–	**53**	48
Pulp (000 tonnes)	80	212	157	22	**471**	505
Newsprint (000 tonnes)	–	–	–	–	**–**	202

Paper and Pulp Provision

During 1999, the Company completed a strategic review of its paper and pulp operations. Certain of these operations have generated low financial returns in recent years, partly as a result of continuing weak markets, despite a commitment by management to improve profitability to acceptable levels. The Company's long-term expectations regarding the markets for certain grades of paper and pulp indicate that returns from these operations will remain unacceptable; thus, it was determined that a provision should be made against the carrying value of these assets.

The Company compared the carrying value of these assets to the future cash flows these assets are projected to generate and have taken a $244 million charge in 1999 to reflect permanent diminution in their value. This charge is comprised of asset writedowns of $219 million, and other related costs of $25 million.

Operating Earnings

In 1999, operating earnings were $274 million before the $244 million charge for paper and pulp operations, representing a 79% improvement compared to 1998. Ongoing operations contributed $199 million or 73% of the total in 1999 compared to 86% in 1998. The building materials segment delivered another solid performance in 1999 as profits soared 115% to a record high. Operating margins averaged 11% in 1999 compared to 6% in 1998.

($ millions)	**1999**	1998	1997	1996	1995
Building materials	**$ 264**	$ 123	$ 90	$ 145	$ 119
Paper and pulp (1)	**(13)**	11	(16)	(75)	224
Energy	**23**	19	24	24	23
Total (1)	**$ 274**	$ 153	$ 98	$ 94	$ 366

(1) 1999 excludes provision for paper and pulp operations.

The four North American OSB mills achieved record operating earnings of $165 million in 1999, 83% higher than the previous peak of $90 million in 1998. These mills generated 60% of Nexfor's total operating earnings but accounted for only 15% of total net sales. Sawmill results also posted a sharp recovery in 1999, contributing $75 million in operating earnings compared to $10 million in 1998, fuelled by a 19% increase in the Western SPF lumber price and lower log costs in B.C. European panel operations lost $2 million, $19 million worse than the prior year, with weak prices for particleboard and MDF. The strength of the pound sterling encouraged imports into the U.K. and created oversupplied conditions that were exacerbated by new capacity that came on stream.

Paper and pulp operating earnings declined $24 million from 1998, excluding the provision. Comparing ongoing operations however, the decline was only $4 million as the newsprint operation generated a $20 million contribution in 1998 prior to its sale. An encouraging aspect of the paper and pulp results was that a $34 million loss in the first six months of 1999 was followed by a $21 million profit in the last half due to price increases and MIP initiatives.

Depreciation expense declined $5 million in 1999 to $162 million. Depreciation in 1998 included $15 million on the newsprint mill. EBITDA increased for the third consecutive year to $436 million excluding the non-recurring items, a 36% improvement over 1998. The building materials segment generated 77% of the total EBITDA, paper and pulp 17%, and energy 6%. EBITDA as a percentage of net sales rose to 18% from 13% in 1998.

Selling, general, and administrative expenses declined 7% in 1999 to $109 million, primarily as a result of aggressive company-wide cost reduction programs.

Interest

Interest expense declined $13 million in 1999 to $53 million primarily from:

- A $6 million increase in capitalized interest.
- Lower debt outstanding.
- Amortizing gains from closing out an interest rate swap in August 1998.

Total long-term debt was $605 million at year end, down 34% from $912 million at December 31, 1998. The weighted average cost of the long-term debt, including the impact of interest rate swaps, is 6.6%. Debt reductions during 1999 included:

- Maturity of a US$100 million 8.875% debenture in mid-October.
- Assumption of Northwood's $88 million debt by Canfor.
- Reduced drawdowns of £9 million under CSC's committed bank lines.

Interest and other income of $7 million in 1999 exceeded 1998 by $5 million due to higher levels of cash available for investing. Cash and short-term notes totalled $159 million at December 31, 1999, largely due to the fourth quarter asset sales. Year end 1998 cash of $181 million included $160 million received in mid-December from the sale of the newsprint mill.

Income Taxes

The effective tax rate of 16% in 1999 was largely the result of the reallocation of tax values between certain assets after Nexfor was spun off by Noranda Inc. to its shareholders at the end of 1998, and the lower rate applicable to capital gains.

Segment Results

Net assets employed by segment at year end 1999 (with 1998 in parentheses) are as follows:

- Building materials 55% (38%)
- Paper and pulp 44% (60%)
- Energy 1% (2%)

Building Materials

($ millions)	1999	1998	1997	1996	1995
Net sales	$ 1,259	$ 1,105	$ 1,026	$ 1,029	$ 921
Operating earnings	264	123	90	145	119
Depreciation	73	68	61	54	39
Capital expenditures	206	96	54	58	156

Building materials accounted for 52% of Nexfor's total net sales in 1999 compared to 45% in 1998. Panel products contributed 65% of the operating earnings in 1999 while lumber and woodlands accounted for 35%. The split in 1998 was 90% panels and 10% lumber and woodlands.

Net Sales ($ millions)			Shipments (volumes)		Average Mill Nets ($ per M unit)	
1999	1998		1999	1998	1999	1998
$ 433	$ 390	Lumber (MMfbm)	954	957	$ 454	$ 407
400	317	OSB (MMsf 1/16")	7,876	7,740	51	41
90	77	Plywood (MMsf 1/16")	914	862	99	89
72	75	MDF (MMsf 1/16")	1,718	1,571	42	48
74	81	Particleboard (MMsf 1/16")	2,485	2,394	30	34
190	165	Other (1)	–	–	–	–
$ 1,259	$ 1,105	Total				

(1) Other sales include a range of decorative products, furniture components, and ready-to-assemble furniture units manufactured at CSC totaling $91 million, as well as chip and log sales to third parties from North American operations.

Markets

U.S. housing starts surged to a 13-year high in 1999 of 1.66 million units, 3% above 1998. Single family starts at 1.33 million – the highest in over 20 years – continued to provide the foundation for the strong construction activity. Buoyant consumer spending spurred by rising incomes, stock market gains, low inflation, and abundant job opportunities, fuelled the growth. Three interest rate hikes between June and November slowed the pace in the second half of the year. Scarcity of key building materials and skilled labour also caused some production backlogs.

OSB continues to displace high cost plywood, increasing consumption to over 50% of the North American structural panel market in 1999. At the start of the decade, the share was 25%. OSB prices were volatile during 1999. The bellwether North Central OSB price, which began the year in the US$155 range, peaked at a record US$355 per Msf 7/16" in July. Prices declined to US$195 in late October in response to higher production. Significant maintenance-related industry downtime announcements in November caused prices to surge again, closing the year at US$242. For the full year, North Central reference prices averaged US$260 per Msf 7/16", up 29% from 1998 and just shy of the 1994 record average of US$264.

MDF consumption in the U.S. jumped to another record high in 1999, the third consecutive year of double-digit growth rates. This continuing surge has served to absorb much of the capacity overhang from the massive expansion in the mid-1990s, and brought the market closer to equilibrium.

The bellwether Western SPF lumber price began the year at US$295 per Mfbm and rose steadily to peak at US$435 in July in response to better than expected housing demand and low field inventories. Prices retreated dramatically to the US$290s by October as lumber production continued to increase in the face of slower housing starts. These prices prompted producers to announce downtime that, together with quota-related shutdowns, helped push prices back to US$330 at year end. For the full year, the benchmark price averaged US$343 per Mfbm, up 19% from 1998.

In the U.K., supply and demand for MDF and particleboard are out of balance. In 1999, two MDF mills and two particleboard presses were commissioned and aggressive pricing was used to secure volumes. The continuing strong pound sterling encouraged cheap imports into the U.K. However, MDF consumption in the U.K. continues to increase at 10% per year. As in North America, OSB was a good news story in Europe and price increases were implemented in both the U.K. and export markets. OSB consumption is growing at 10% in the U.K. and 20% in Continental Europe.

Operations

Production	**1999**	1998	1997	1996	1995
Lumber (MMfbm)	**961**	956	957	1,047	997
OSB (MMsf 1/16")	**7,873**	7,715	7,289	6,246	4,454
Plywood (MMsf 1/16")	**904**	875	883	822	915
MDF (MMsf 1/16")	**1,721**	1,539	1,573	1,521	1,137
Particleboard (MMsf 1/16")	**2,535**	2,421	2,492	2,506	1,160

North American Panels

Construction proceeded as planned at the new OSB mill in Joanna, South Carolina. The US$115 million project, with capacity of three billion square feet (1/16" basis) is expected to commence operations in the first quarter of 2000. In October 1999, plans were announced to build another OSB mill in Huguley, Alabama. Environmental permits were received and site clearing and preparation began in December. This US$120 million facility, with capacity identical to the Joanna mill, is scheduled to start up in mid-2001. These two new mills will increase Nexfor's North American OSB capacity by 78%.

Production from the four existing OSB mills increased 1% in 1999 to a record high, cash costs averaged US$113 per Msf 7/16", and EBITDA of $186 million generated a 52% return on sales. Direct sales to retailers accounted for 58% of revenue in 1999 compared to only 19% three years ago.

Both industrial panel operations established production records in 1999. The Deposit mill increased MDF output 9%, including more moisture-resistant and cut-to-size specialty panels, and Cochrane generated 8% more hardwood overlay plywood. EBITDA to net sales rose to 20% from 17% in 1998.

OSB continues to displace high cost plywood, increasing consumption to over 50% of the North American structural panel market.

European Panels

The new MDF line at Cowie started up successfully in May, adding over 40% to CSC's annual capacity. Including a power station and effluent treatment plant, Nexfor's 50% share of the total project was $66 million. Ownership of CSC increased to 100% in November. EBITDA of $19 million in 1999 declined 46% from the $35 million generated in 1998 due to very competitive markets for MDF and particleboard. A battle for market share resulted in average price realizations for MDF falling 21% from 1998 to all-time lows. The impact of lower prices was partially offset by a 5% reduction in average manufacturing costs. Particleboard operations at Cowie were curtailed in the fourth quarter to control inventories in the face of weak markets. OSB profits increased 60%, with average mill nets rising 4% and production costs down 1%. Exports accounted for 55% of total OSB sales.

Staffing reductions totalled 98 employees or 7% at CSC during 1999. Labour savings will be largely realized in 2000. Significant reductions in fibre and resin costs negotiated during 1999 should enhance future earnings.

Lumber

Total lumber production rose 5 MMfbm to 961 MMfbm. Despite less quota-related downtime, Nexfor's share from the four Northwood mills declined 18 MMfbm in 1999 due to inclusion for only the 46-week ownership period. Record production at Plaster Rock in 1999 benefited from the installation of an automated edger optimizer and curve sawing equipment in late 1998. The La Sarre mill operated three more weeks in 1999, taking only maintenance downtime. Both Québec sawmills achieved records for productivity, planer efficiency, and lumber recovery. Quota constraints however continued to force over 50% of the lumber from the Québec mills into the Canadian market at discounts averaging US$85 per Mfbm. The sawmills in New Brunswick and Maine, representing 52% of Nexfor's ongoing lumber capacity of 545 MMfbm are exempt from the Canada–U.S. softwood lumber agreement.

EBITDA from the sawmills totalled $97 million in 1999, a dramatic increase over the $32 million generated in 1998. Northwood accounted for $56 million of the turnaround, boosted by a 13% reduction in average log costs due to reduced stumpage. Total mill nets increased 11% despite a 4% decline from the Québec stud mills.

Paper and Pulp

($ millions)	1999	1998	1997	1996	1995
Net sales	**$ 1,138**	$ 1,300	$ 1,226	$ 1,251	$ 1,471
Operating earnings (loss) (1)	**(13)**	11	(16)	(75)	224
Depreciation	**87**	97	93	82	73
Capital expenditures	**44**	120	123	214	195

(1) 1999 excludes provision for paper and pulp operations.

Paper and pulp accounted for 47% of Nexfor's total net sales in 1999, down from 54% in 1998 due to the sale of the newsprint mill in December 1998. Operating earnings improved throughout the year. After losses of $34 million in the first half of 1999, due to a weak pricing environment, paper and pulp operations generated earnings of $21 million in the second half.

Net Sales ($ millions)			Shipments (000 tonnes)		Average Mill Nets ($ per tonne)	
1999	1998		**1999**	1998	**1999**	1998
$ 606	$ 605	Woodfree paper	**413**	408	**$ 1,468**	$ 1,482
210	238	Groundwood paper	**172**	180	**1,222**	1,325
37	34	Paperboard	**53**	48	**691**	711
134	156	Softwood pulp	**233**	279	**575**	559
146	134	Hardwood pulp	**238**	226	**614**	591
–	156	Newsprint	**–**	202	**–**	771
5	(23)	Intra-segment and other	**–**	–	**–**	–
$ 1,138	$ 1,300	Total	**1,109**	1,343		

Markets

Paper

Uncoated freesheet prices declined steadily through 1998 with soft export markets, a strong U.S. dollar, rising imports, and new capacity all playing a part. Markets remained weak through mid-1999 due to disappointing U.S. demand, largely attributable to a drawdown in inventories and continued supply from offshore. Rising pulp prices, strong demand for cutsize, and reduced imports were all contributing factors to gradually improving conditions in the second half of 1999. Transaction prices for the benchmark commodity 50 lb. offset rolls averaged US$645 per ton, down 3% from 1998 and the lowest level since 1994.

Coated groundwood prices began to weaken in the fourth quarter of 1998 due to a surge of European imports. Some price discounting continued into the first half of 1999. Stronger end-use demand from magazines and catalogues, inventory building, and lower imports contributed to more favourable market conditions in the third quarter, and a US$60 per ton price increase was announced in October. The boom in dot-com advertising is swelling magazines with ad pages.

Uncoated groundwood markets were extremely competitive early in 1999 as a major producer re-entered the market following a five-month strike. With weak newsprint markets, more manufacturers increased their groundwood specialty tonnage. Demand increased in the second half of the year with a healthy advertising climate and tighter newsprint markets.

Market Pulp

Norscan producer inventories declined steadily during the year from 1.74 million tonnes in January to 1.15 million tonnes in December, the lowest year end total since 1994. Key drivers of the reduction were improving world economies, mill closures, limited new capacity globally, and a rebound in demand from both real consumption and inventory rebuilding by customers.

Norscan inventories below 1.5 million tonnes typically coincide with rising prices. Northern bleached softwood kraft pulp (NBSK) list prices bottomed at US$500 per tonne in North America and US$460 in Europe at the end of 1998. Price increases were implemented in 1999, beginning in the second quarter, raising pulp to US$610 in North America and US$600 in Europe effective November 1. Another US$30 per tonne increase was implemented January 1, 2000, as strong economic conditions continued to bolster consumption.

For the year as a whole, reported transaction prices for the bellwether NBSK grade delivered into U.S. markets averaged US$542 per tonne, down US$2 from the 1998 average. Prices had fallen steadily during 1998, impacted by economic turmoil in the Far East. Hardwood grades, bolstered by requirements from the start-up of new non-integrated paper machines in China, averaged US$503 per tonne, up 4% from 1998.

Operations

Production (000 tonnes)	**1999**	1998	1997	1996	1995
Woodfree paper	**407**	415	380	376	368
Groundwood paper	**171**	178	204	200	205
Paperboard	**53**	48	38	33	35
Softwood pulp	**241**	266	261	222	252
Hardwood pulp	**238**	228	227	226	219
Newsprint	–	203	208	207	207

Stronger end-use demand from magazines and catalogues, inventory building, and lower imports contributed to more favourable market conditions in the third quarter.

Paper

Although financial results improved in each quarter of 1999, the paper operations reported a $12 million loss compared to a $3 million loss in 1998, excluding newsprint. Market-related downtime in the first half of 1999 took 11,000 tonnes out of production in the Midwest operations. No downtime was taken in 1998 for market reasons. EBITDA, before the paper and pulp provision, was $40 million in 1999 compared to $44 million in 1998, excluding newsprint.

Compared to 1998, groundwood paper earnings declined more than woodfree. Average price realizations for coated groundwood, uncoated groundwood, and woodfree fell 9%, 6%, and 1% respectively. Lower pricing masked significant reductions in selling and administration costs achieved within the segment. Total average costs at the mills were held flat with 1998 levels despite rising raw material costs for pulp in the latter half of the year. The sales organization was restructured in 1999, new mill managers were appointed at four mills, and capital expenditures were limited to 50% of depreciation.

Shipments of specialty products from the Madawaska mill increased to 73% of total in 1999 compared to 64% in 1998. Total shipments of SC release, coated packaging, and thermal paper grades increased by 30,000 tonnes to 78,000 tonnes. Bell Atlantic Directory Services awarded the mill its Supplier Excellence Award. Sulphite production from the Edmundston pulp mill averaged a record 503 tonnes per day, 9% higher than 1998.

Grade mix improvements were not attained in the Midwest where 70% of the product mix remains commodity. Numerous cost reduction initiatives, including a 20% reduction in staffing at Park Falls, began to bear fruit in the fourth quarter of 1999 as a positive EBITDA was achieved in the Midwest for the first time in eight quarters.

Market Pulp

Operations turned profitable at mid-year, benefiting from rising prices. An operating loss of $17 million in the first half of 1999 was nearly offset by a $16 million profit in the second half. Pulp operations in 1998 lost $6 million. Normal spring and fall maintenance shutdowns at both market pulp mills were replaced in 1999 with a single shutdown in June.

Production at the Thurso hardwood mill increased 4% in 1999 to a record high of 238,000 tonnes. Cash production costs rose 4% due to higher fibre and energy costs. Specialty sales of maple and photographic pulp increased from 20,000 tonnes in 1998 to 58,000 tonnes in 1999, representing 24% of the mill's total output. The Thurso mill has been certified as supplier to major photographic paper producers.

Productivity at Northwood's softwood mill in Prince George averaged 1,543 tonnes per day in 1999 prior to the sale to Canfor, topping the record 1,542 achieved in 1998. Cash production costs declined 1% from 1998.

Energy

($ millions)	**1999**	1998	1997	1996	1995
Net sales	**$ 40**	$ 39	$ 28	$ 27	$ 27
Operating earnings	**23**	19	24	24	23
Depreciation	**2**	2	2	2	2
Capital expenditures	**7**	6	3	2	2

Energy shipments to third parties accounted for 1% of Nexfor's net sales in 1998 and 1999. Net sales in the preceding table include internal and external shipments. Prior to 1999, about 50% of the power was used by Nexfor's mills at Thurso and Masson-Angers. Sale of the Masson-Angers mill increased third party sales to 85% of total sales in 1999.

Production (Gwh)	**1999**	1998	1997	1996	1995
Electricity	**1,261**	1,138	1,424	1,371	1,305

Higher earnings in 1999 were driven by price increases. In addition, higher production reduced purchases from Hydro-Québec needed to fulfill customer obligations. The 1999 production includes operations up to the November 18 sale date. Electricity generated varies from year to year due to water flows.

Forest Resources

Nexfor manages over 4 million hectares of forest land, mainly in New Brunswick, Québec, and Maine, of which more than 400,000 hectares are freehold. More than 7 million cubic metres of logs were harvested in 1999, with Northwood accounting for half of the total. About 30 million seedlings were planted in 1999 to supplement natural regeneration.

Environment Issues

The Madawaska mill has progressed in the design and selection of an effluent treatment system to meet new permit requirements. An expenditure of US$14 million has been approved and the system is scheduled to be in operation prior to the compliance date of September, 2001. Along with Nexfor Technology Centre personnel, the mill is investigating ways of meeting the requirement with process changes rather than an end-of-pipe treatment. A decision will be made in the first half of 2000.

The Park Falls mill has evaluated the cost of compliance with the Cluster Rules, the new pulp and paper effluent rules in the U.S. The bleaching process will be altered to eliminate the use of chlorine at a cost of US$4 million. This will bring the mill into compliance by April 2001.

Nexfor's paper and pulp operations achieved a compliance level of 99.92% with regulated air and water emission limits, the highest level to date. No environmental fines or penalties were levied against the Company.

In Canada, the development of a new set of air quality regulations for particulate and ozone emissions are to be implemented over the next few years. Nexfor works with governments and industry associations to determine the impacts of forest industry operations on local air quality. When the information on implementation and the data on local air quality is available, it will be possible to estimate the cost to the Company for compliance. The United States Environmental Protection Agency has initiated a similar air quality program. That process is currently undergoing judicial examination.

Environmental management systems were improved across the group in 1999. West Carrollton and Thurso received ISO 14001 registration. All other Nexfor mills progressed toward the completion of their environmental management systems in accordance with overall corporate objectives.

Also in 1999, the Company pursued certification of our forest management practices. The Nexfor foresters chose certification of their forest management systems to the ISO 14001 system, taking care to include forestry aspects as items of management system focus. Our holdings in Québec, New Brunswick, and Maine are all expected to be certified by the end of 2000. Following these certifications, the operations will assess the need for further certifications either to the Canadian Standards Association Sustainable Forest Management Standard, the Sustainable Forestry Initiative (SFI), or to the Forest Stewardship Council (FSC). CSC is certifying their manufacturing operations to the FSC standard so that customers can be assured its products are manufactured from sustainably managed timber.

Aboriginal Issues

The rights of First Nations peoples to harvest and benefit from natural resources remain major public policy issues in Canada. Many of these issues are currently before the courts or in protracted negotiations and the specific effects will not be known for some time. Nexfor has developed a positive working relationship with First Nations in New Brunswick and has been purchasing the First Nations' allocation of fibre from Crown lands during the last two years. In Québec, the Cree Nation has lodged a suit against the government of Québec and forest companies in northwestern Québec, including Nexfor. The suit alleges that forest management practices should be carried out under the jurisdiction of the James Bay Agreement, rather than provincial forestry legislation. The matter is currently before the courts and no schedule is available for resolution. Some increase in costs of forest management could occur as a result of this action. From time to time, other bands in northwestern Québec express concern over forest harvesting practices. These are typically resolved with face-to-face meetings with the bands, and joint participation in specific planning and harvesting activities.

Labour Relations

During 1999, Nexfor renewed collective agreements for employees at the Thurso, Edmundston, and Prince George pulp mills for a period of six years. The agreements followed pattern settlements established in 1998. The pattern agreement provided for:

- More flexible work practices.
- The option to operate mills 365 days per year.
- A lump sum signing bonus of $2,750 per employee.
- Annual wage increases of 2% in each of the last five years of the contract.

New contracts were also ratified in 1999 at the Cochrane plywood mill and the OSB mill and sawmill at La Sarre. In 2000, negotiations will aim at renewing four collective agreements in eastern Canada at two sawmills, one OSB mill, and the woodlands operation in New Brunswick. Two of those agreements expired in 1999 – one in the second quarter and one on December 31.

Capital Spending

Capital spending increased 16% in 1999 to $257 million. Major growth projects accounted for 68% of the expenditures:

- $141 million on the new OSB mill in South Carolina.
- $3 million on the new OSB mill in Alabama.
- $32 million on the third MDF line in Scotland.

Excluding these projects, capital investments were $81 million, half the depreciation and amortization of $162 million. Building materials projects in North America accounted for 65% of the total spending in 1999, European panels accounted for 15%, paper and pulp 17%, and energy 3%.

($ millions)	1999	1998	1997	1996	1995
Increased productivity	**$ 59**	$ 137	$ 80	$ 158	$ 163
Greenfield	**144**	16	–	–	44
Environmental	**12**	11	27	42	50
Maintenance of business	**42**	58	73	74	95
Total	**$ 257**	$ 222	$ 180	$ 274	$ 352

Capital expenditures of $325 million are forecast for 2000. More than 60% of the planned spending will be directed towards strategic growth initiatives, including the OSB projects in Joanna and Huguley. The mill in Joanna is scheduled to begin operating in the first quarter of 2000; site clearing began at Huguley in December 1999. To meet environmental requirements, approximately $20 million will be spent in 2000 at the paper mills in Madawaska and Park Falls.

The planned capital expenditures in 2000 will be funded largely by cash flow from operations. Cash and temporary investments of $355 million are also available if required.

Capital expenditures of $325 million are forecast for 2000. More than 60% of the planned spending will be directed towards strategic growth initiatives, including OSB projects.

CSC Acquisition

On October 11, 1999, the Company announced its intention to increase ownership in CSC to 100% from 50%, exercising its option under the joint venture agreement. This acquisition strengthened Nexfor's unique foothold in Europe in the panelboard business. The 50% interest was acquired for £75 million, £50 million in cash and the assumption of £25 million of debt. The cost amounted to four times the average EBITDA generated by CSC in 1996 and 1997. In December, £44 million of CSC's total debt was paid off, leaving £9 million outstanding at year end 1999.

Asset Sales

On November 23, 1999, Nexfor completed the sale of its 50% interest in Northwood to Canfor. Northwood represented 12% of Nexfor's asset base. Cash proceeds of $240 million were received at closing. In addition, Canfor issued $78 million of 6.25% debentures to Nexfor with maturity November 23, 2006. The debentures are convertible into Canfor common stock after May 21, 2000, at a fixed conversion price of $13.20 per share. At December 31, 1999, Canfor stock closed trading at $16.90 on the TSE. Canfor also assumed Nexfor's $88 million share of Northwood's long-term debt and acquired cash balances of $42 million at the closing date. The net pre-tax gain to Nexfor amounted to $130 million after expenses, including severances and closure costs associated with the Vancouver and Tokyo sales offices.

Combined cash proceeds of $175 million were received in two transactions in November and December from the sale of 79% of the units in Great Lakes Hydro Income Fund. The Company will receive an additional $100 million from a bridge loan to Great Lakes Power Trust due September 30, 2000, and bearing interest at an annual rate of 7.5%. The net pre-tax gain to Nexfor amounted to $202 million after expenses including legal and underwriters' fees, indemnities, and power leases. The sale of the 21% interest retained by Nexfor, representing 4,749,285 units in the Income Fund, is expected to occur in 2000, depending on market conditions.

Foreign Exchange

Forest products companies compete internationally for market share where product prices are based directly or indirectly on U.S. dollars. Nexfor's policy is to hedge all significant balance sheet foreign exchange exposures and a portion of net U.S. dollar revenue for periods up to three years, in order to reduce the potential negative impact of a rising Canadian dollar. The Canadian dollar, relative to its U.S. counterpart, averaged US$0.6730 in 1999 versus US$0.6742 in 1998. In 1999, Nexfor settled revenue hedge contracts on US$128 million at an average rate of US$0.6623, resulting in a pre-tax gain of $3 million.

For 2000, Nexfor has entered into US$120 million of forward foreign exchange contracts representing about 30% of expected net U.S. dollar revenue. The average forward exchange rate on these contracts is US$0.6754. Giving effect to these hedges, each U.S. one cent change in the value of the Canadian dollar will impact annualized after-tax earnings by approximately $5 million in 2000. This compares with an impact of approximately $7 million if these contracts were not in place.

Liquidity and Capital Resources

Cash from operations, before non-cash working capital changes, totalled $363 million in 1999, a 40% increase over the $260 million generated in 1998. Improved operating results were the major contributor to the healthy increase. Proceeds from the asset sales are not included as cash from operations. A reduction in operating working capital generated $23 million, down from $41 million in 1998. Accounts payable at the end of 1999 include $48 million of expenses related to the asset sales and restructuring provision. Cash taxes, including capital and large corporation tax, increased to $27 million in 1999 from $16 million in 1998 mainly due to a return to profitability at Northwood.

Nexfor's financial state strengthened considerably in 1999. Net debt at December 31, 1999 of $346 million reflects short- and long-term debt of $605 million less cash and short-term loan receivable of $159 million and $100 million respectively. Net debt declined $399 million from year end 1998, benefiting from strong cash flow and asset sales. The ratio of net debt to total capitalization decreased to 18% in 1999 from 34% at year end 1998. All long-term debt is foreign denominated, 97% in U.S. dollars and 3% in pound sterling. All significant balance sheet foreign exchange exposures are hedged. Since the foreign subsidiaries are self-sustaining operations, gains or losses on translation are not included in the earnings statement but are shown in the currency translation account in shareholders' equity.

The US$100 million 8.875% debentures issued in 1992 were repaid at maturity on October 15, 1999, and $10 million was paid down on the Mississippi Industrial Revenue Bonds issued to finance the Guntown OSB mill. No significant debt is repayable until July 15, 2003, when the US$150 million 7.5% debentures mature. The average term of the $605 million debt outstanding is just under five years.

At December 31, 1999, Nexfor's net floating interest rate position, considering all financing, cash balances and interest rate swaps, was 56%, compared to 57% at the end of 1998. Annual bank line renewals with the Company's credit banks were successfully completed during 1999 with no material changes. At December 31, 1999, only $50 million of the Company's $451 million of committed term lines was drawn down, representing primarily the Mississippi Industrial Revenue Bonds. These lines, having a weighted average term of just under four years, provide Nexfor with sufficient capital resources to meet all expected cash needs over this period. Supplementing these lines are committed bank lines of £75 million at CSC, of which £6 million were drawn at year end 1999, and Nexfor's 50% share of Northwood Panelboard's committed bank lines of US$10 million. Total committed bank lines available to Nexfor are $633 million, of which $68 million have been utilized.

At December 31, 1999, the Company had approximately $50 million of Canadian non-capital losses available for carry-forward expiring in 2004 and $20 million of deferred Scientific Research and Development Expenditures. The future tax benefits of these timing differences have been included in deferred income taxes in the financial statements. The Company also had approximately $54 million of Investment Tax Credits (ITCs) available to reduce future Canadian tax liabilities. The ITCs expire between 2000 and 2009. The tax benefit of the ITCs has been reflected in the financial statements as a reduction in the book value of the assets to which they relate. The combination of losses and credits will be utilized over the next several years to eliminate cash taxes otherwise payable, and will enhance future cash flow.

Nexfor's financial state strengthened considerably in 1999. The ratio of net debt to total capitalization decreased to 18% from 34% at year end 1998.

Credit Ratings

The Company has investment grade credit ratings from each of the four major North American rating agencies. Debt ratings within investment grade categories are a key objective of Nexfor's financing strategy and provide for long-term access to capital markets at attractive terms and conditions. During 1999, agencies reviewed the Company's credit quality and reaffirmed the ratings as follows:

	Dominion Bond Rating Service	Canadian Bond Rating Service	Moody's Investors Service	Standard & Poor's
Commercial paper	R-1 (low)	A-1 (low)	P-2	
Debentures	BBB	B++	Baa2	BBB
Preferred shares	Pfd-3	P-3		

Common Shares

Under a normal course issuer bid, the Company purchased 2.5 million shares during 1999 for $16 million. This raises the three-year buyback total to 5.8 million shares at a cost of $35 million. The normal course issuer bid was renewed December 9, 1999 for a 12-month period.

Common Stock Information

	1999	1998	1997	1996	1995
Shares outstanding at year end (000s)	**151,217**	153,706	154,693	156,718	156,670
Dividends paid ($ millions)	**61**	62	63	63	55
Book value	**8.22**	6.93	7.29	7.67	8.00
Market price at year end	**8.40**	6.05	7.75	9.30	8.88
Dividend yield	**4.8%**	6.6%	5.2%	4.3%	4.5%

Dividends

The cash payment on common dividends amounted to $61 million in 1999, down $1 million from 1998 with fewer shares outstanding as a result of the share repurchases. Nexfor intends to manage its business to allow a sustainable quarterly dividend to be paid on the common shares throughout the business cycle. An annual dividend of $0.40 per share has been in effect since the fourth quarter of 1990.

Dividends on the eight million preferred shares totalled $13 million, unchanged from 1998. The maximum dividend payable on the preferred shares, the average prime interest rate, has been in effect for the past five years.

Nexfor intends to manage its business to allow a sustainable quarterly dividend to be paid on the common shares throughout the business cycle.

Price Sensitivities

Based on 2000 planned production volumes, the following table shows the approximate impact on after-tax earnings, on an annualized basis, of changes in Canadian mill nets.

	Sensitivity Factor	Impact on Earnings ($ millions)	Average Mill Nets Q4 1999
N.A. OSB	$10 per Msf 7⁄16"	8	$300
Other panels	$10 per Msf 7⁄16"	9	302
Lumber	$10 per Mfbm	3	427
Woodfree paper	$25 per tonne	7	1,503
Groundwood paper	$25 per tonne	3	1,246
Market pulp	$25 per tonne	2	685

Y2K

Updates or conversions were successfully completed on all systems prior to year end 1999. To date, Nexfor's operations have not been negatively affected by the Year 2000 issue.

Outlook for 2000

General

Continued buoyant economies in North America and upswings in Europe and Asia bode well for Nexfor entering 2000. Profits from the North American building materials segment will likely fall from the record pace of 1999 due to a slowdown in housing activity and the sale of Northwood. We anticipate this shortfall will be largely offset by substantial improvements from paper, pulp, and European panels.

North American Building Materials

U.S. housing starts are expected to slow modestly in 2000 due to higher interest rates. A 5% reduction would leave starts at 1.57 million units, still a healthy level considering the 10-year average is 1.37 million. Repair and renovation activity is expected to remain at 1999 levels. The square footage of new homes also continues to increase.

Nexfor's lumber production will decline by close to 50% in 2000 as a result of the Northwood sale. No quota-related curtailments are anticipated but over 50% of the production from the Québec stud mills will again have to be sold in the Canadian market at a discount. Nexfor has joined the Canadian industry's Free Trade Lumber Council, which is aggressively lobbying U.S. customers, U.S. politicians, and the Canadian government to establish free trade in lumber when the Softwood Lumber Agreement expires April 1, 2001.

The new OSB mill in South Carolina is scheduled to begin operation in the first quarter of 2000, increasing Nexfor's North American annual capacity by 39%. Construction on the Alabama mill will proceed towards a mid-2001 completion date. We intend to pursue an aggressive OSB expansion strategy through construction of new mills, acquisitions, and expansion of existing facilities.

A review of the industrial products group comprising Nexfor's non-OSB panels is currently underway. Potential growth opportunities in that area have been identified.

European Panels

The value of the pound sterling versus the German mark will continue to be a significant factor in CSC's profitability. The current rate of £1.00 = 3.1 Dem negatively impacts profits. Irrespective of exchange rates, CSC will benefit in 2000 from aggressive MIP initiatives that could exceed £10 million. Labour cost savings as well as timber and resin price reductions are already in place. The CSC management team is also being strengthened.

Demand for OSB remains strong with two to three month lead times. Price increases were implemented in the fourth quarter of 1999. There are expectations that some customers, both in the U.K. and Europe, will be disappointed due to lack of supply. Opportunities for OSB expansion in Europe will be evaluated in 2000.

Markets for MDF are expected to remain highly competitive. Prices slid throughout 1999 until November when a 6% increase was implemented. CSC will be pursuing new business opportunities in both the construction and do-it-yourself industries.

Particleboard is in an oversupply position as a result of capacity increases. Prices, which had declined during 1999, appeared to stabilize by year end. Market-related downtime may again be necessary in 2000. Reconfiguration options for the Cowie facility will be evaluated in 2000 to improve quality and match productive capacity with customer requirements.

We intend to pursue an aggressive OSB expansion strategy through construction of new mills, acquisitions, and expansion of existing facilities.

Paper and Pulp

We expect our paper and pulp business will post a significant profit improvement in 2000 due to rising pulp prices, a higher percentage of specialty products, limited industry capacity additions, labour cost savings, and reduced overhead. In addition, the $219 million fixed assets writedown at year end 1999 will lower annual depreciation charges by approximately $10 million.

A US$30 per tonne pulp price increase was implemented successfully on January 1, 2000, raising bleached hardwood kraft prices to US$610 in North America and US$590 in Europe. The Food and Agriculture Association (FAO) of the United Nations predicts that global market pulp capacity will grow by only 0.4% per year to 2001. During the same time, demand is expected to increase 3% per year.

Rising pulp prices will have much less of an impact on Nexfor's paper operations than on major competitors who are non-integrated. With on-site groundwood, sulphite, and deinked pulp mills, Nexfor will only purchase about 80,000 tonnes of kraft pulp from third parties in 2000, to produce 660,000 tonnes of paper.

We expect to reduce our exposure to commodity hardwood pulp in 2000 by increasing shipments of specialty maple and photo pulp grades from the Thurso mill to over 40% of the mill's output, from 24% in 1999. Specialty paper products from Madawaska are projected to rise to 77% from 73% in 1999.

Nexfor enters 2000 with a leaner organization structure, less diversification, 80% of its assets in core businesses, a sharpened focus, and determined to maintain its top quartile ROCE ranking as benchmarked against competitors.

Summary

Mergers and consolidations are likely to again be a dominant feature of the forest products sector in 2000. Nexfor will continue to seek out opportunities to grow its panelboard businesses.

A strong balance sheet, with net debt to capitalization at 18%, provides the flexibility to respond to opportunities. Unused committed term bank lines amounted to $565 million at December 31, 1999, in addition to cash balances of $159 million. Other temporary investments include: a $100 million loan due from the Income Trust prior to September; debentures convertible into 5.9 million Canfor shares after May 21; and a 21% interest in the Hydro Income Fund. Based on the value received for the 79% interest, the remaining hydro investment should generate gross proceeds of approximately $47 million.

We will continue to shift to more higher-margin products and maintain a disciplined capital allocation. We are counting on achieving in excess of $70 million from MIP initiatives in 2000, primarily in the paper and pulp and European panels businesses. The Company proposes to repurchase 10 million common shares in 2000 under its normal course issuer bid, and redeem 2.8 million class A preferred shares.

Nexfor enters 2000 with a leaner organization structure, less diversification, 80% of its assets in core businesses, a sharpened focus, and determined to maintain its top quartile ROCE ranking as benchmarked against competitors.

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial statements are not precise since they include certain amounts based upon estimates and judgements. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Nexfor maintains adequate systems of internal accounting and administrative controls consistent with reasonable costs. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Nexfor's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and reviews the financial statements and management's discussion and analysis; considers the report of the external auditors; assesses the adequacy of the internal controls of the company; examines the fees and expenses for audit services; and recommends to the Board the independent auditors for appointment by the shareholders. The Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders.

January 21, 2000

Dominic Gammiero

DOMINIC GAMMIERO
President &
Chief Executive Officer

I M Young

IAN M. YOUNG
Senior Vice President &
Chief Financial Officer

Auditors' Report

To the Shareholders of Nexfor Inc.

We have audited the consolidated balance sheets of Nexfor Inc. as at December 31, 1999 and 1998, and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

CHARTERED ACCOUNTANTS

Toronto, Canada
January 21, 2000

Consolidated Balance Sheets

Years ended December 31 (in millions)	1999	1998
Assets		
Current assets:		
Cash and short-term notes	$ 159	$ 181
Temporary investments (notes 3 & 11)	196	–
Accounts receivable	264	288
Inventory (note 4)	246	332
	865	801
Property, plant and equipment (note 5)	1,677	1,945
Other assets	32	29
	$ 2,574	$ 2,775
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank advances	$ –	$ 14
Accounts payable and accrued liabilities	370	422
Current portion of long-term debt (note 6)	11	168
	381	604
Long-term debt (note 6)	594	744
Other liabilities (notes 2 & 13)	92	109
Deferred income taxes	73	61
Shareholders' equity (note 7)	1,434	1,257
	$ 2,574	$ 2,775

(See accompanying notes)

On behalf of the Board:

K. LINN MACDONALD
Chairman

DOMINIC GAMMIERO
President &
Chief Executive Officer

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31
(in millions, except per share information)

	1999	1998
Earnings		
Net sales	$ 2,431	$ 2,426
Operating costs:		
Cost of sales	1,886	1,989
Depreciation	162	167
Selling, general and administrative	109	117
	2,157	2,273
Operating earnings:		
Ongoing operations	199	132
Operations sold	75	21
	274	153
Provision for paper and pulp operations (note 9)	(244)	–
Gain on sale of operations and other income (notes 3 & 11)	339	2
Interest expense (note 6)	(53)	(66)
Income tax expense (note 8)	(50)	(42)
Earnings	$ 266	$ 47
Earnings per common share (note 7) – Basic	$ 1.68	$ 0.22
– Fully Diluted	1.65	0.22
Retained Earnings		
Balance, beginning of year	$ 94	$ 146
Impact of change in accounting policy (note 2)	–	(24)
Revised balance, beginning of year	94	122
Earnings	266	47
Preferred share dividends	(13)	(13)
Common share dividends	(61)	(62)
Balance, end of year	$ 286	$ 94

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 31 (in millions)	1999	1998
Cash provided by (used for):		
Operating Activities		
Earnings	**$ 266**	$ 47
Items not affecting cash:		
Depreciation	**162**	167
Deferred income taxes	**25**	44
Gain on sale of operations (note 11)	**(332)**	–
Provision for paper and pulp operations (note 9)	**242**	–
Other items	**–**	2
Cash provided by operations	**363**	260
Net change in non-cash working capital balances (note 10)	**23**	41
	386	301
Investment Activities		
Additions to property, plant and equipment	**(257)**	(222)
Sale of operations (note 11)	**320**	163
Investments and other (note 12)	**(125)**	(46)
	(62)	(105)
Financing Activities		
Debt incurred (repaid), net (note 10)	**(256)**	24
Repurchase of common shares (note 7)	**(16)**	(6)
Dividends	**(74)**	(75)
Proceeds on redemption of interest rate swaps (note 6)	**–**	13
	(346)	(44)
Increase (decrease) in cash and short-term notes	**$ (22)**	$ 152

(See accompanying notes)

Notes to the Consolidated Financial Statements

(in millions, except per share information)

In these notes "Nexfor" means Nexfor Inc. and all of its consolidated subsidiaries and affiliates, and "Company" means Nexfor Inc. as a separate corporation.

1. Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Nexfor's investments in joint ventures are accounted for by the proportionate consolidation method. Nexfor's interests in investments in which it has significant, but less than controlling interests, are accounted for by the equity method.

Translation of Foreign Currencies

Monetary assets and liabilities of domestic companies are translated at the exchange rate prevailing at the year end, and revenues and expenses at average rates of exchange during the year.

The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, under which assets and liabilities are translated at the exchange rate prevailing at the year end, and revenues and expenses at average rates of exchange during the year. Gains or losses on translation are not included in the consolidated statement of earnings but are deferred and shown as a separate item in shareholders' equity. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign subsidiaries are reported in the same manner as translation adjustments.

Gains or losses on forward foreign exchange contracts which serve to hedge future foreign currency-denominated net sales are recognized at their settlement dates and are included in net sales.

Pension Costs

Nexfor has various pension plans which cover substantially all employees. Nexfor uses an accrued benefit actuarial method pro-rated on services and best estimate assumptions to value benefit obligations. Adjustments arising from plan amendments, experience gains and losses and changes in assumptions are amortized over the estimated average remaining service lives of the employee groups. Current service costs are expensed in the period. Market-related asset values are determined on a moving average basis.

Non-Pension Benefit Costs (note 2)

Nexfor has various non-pension benefit plans which provide for certain health care and other benefits for a substantial number of its employees. These plans are funded on a "pay-as-you-go" basis. The projected benefit obligation and period expense are determined using accepted actuarial methods.

Valuation of Inventories

Inventories of raw materials and operating supplies are valued at the lower of average cost and replacement cost or net realizable value. Inventories of manufactured products are valued at the lower of average cost and net realizable value.

Financial Instruments

The carrying values of financial instruments approximate fair value, except where disclosed in these notes. Fair values disclosed are determined using actual quoted market prices or, if not available, indicative prices based on similar publicly traded instruments.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated on a straight-line basis. The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over the following periods which approximate their useful lives:

Buildings	20 to 40 years
Sawmills and panelboard production equipment	10 to 15 years
Paper and pulp mill machinery and production equipment	20 years
Logging machinery and equipment	4 to 10 years

Depletion of timber is determined on an appropriate basis related to log production and included in depreciation. Interest is capitalized on major capital projects during construction.

2. Change in Accounting Policy

In 1999, Nexfor began accounting for its non-pension retirement benefits on an accrual basis. Previously, these costs were charged to earnings as incurred. The unrecorded projected benefit obligation of $39 ($24 net of tax) at January 1, 1998, has been charged to opening retained earnings in 1998. Earnings in 1998 have been reduced from those previously reported by $1 to adjust for the net impact of this change. Earnings in 1999 are $1 lower using the accrual method than they would have been under the previous policy.

3. Temporary Investments

		1999		1998
Loan receivable from Great Lakes Power Trust	**$**	**100**	$	–
Great Lakes Hydro Income Fund Trust Units (4,749,285 units)		**18**		–
Canfor Corporation Convertible Subordinated Debenture		**78**		–
	$	**196**	$	–

The loan receivable from Great Lakes Power Trust ("GLPT") bears interest at 7.5% and is secured by a first charge on the assets of the trust. The principal amount of the loan is repayable not later than September 30, 2000.

The trust units in Great Lakes Hydro Income Fund represent the Company's proportionate undivided ownership in the Fund and earn income based on the distributable cash flows of GLPT. The value of $18 represents the Company's proportionate ownership of trust units multiplied by the net book value of the unsold trust units. The fair value of the trust units at December 31, 1999 is $47.

The Convertible Subordinated Debenture bears interest at 6.25%; is due on November 23, 2006, and is redeemable by Canfor Corporation after November 23, 2002. This debenture is convertible into common shares of Canfor Corporation at a conversion price of $13.20 per share and can be sold by the Company after May 21, 2000. The fair value of the debenture at December 31, 1999 is $112.

4. Inventory

		1999		1998
Logs, pulp chips and pulpwood	**$**	**52**	$	95
Paper and pulp products		**78**		105
Lumber, panel products and other building materials		**51**		55
Operating and maintenance supplies		**65**		77
	$	**246**	$	332

5. Property, Plant and Equipment

				Accumulated		Net Book Value		
		Cost		Depreciation		1999		1998
Paper and pulp	$	1,530	$	812	**$**	**718**	$	1,120
Building materials		1,256		542		**714**		583
Timber and timberlands		100		28		**72**		94
Construction in progress		171		–		**171**		101
Energy and other		2		–		**2**		47
	$	3,059	$	1,382	**$**	**1,677**	$	1,945

6. Long-Term Debt

	1999	1998
Nexfor Inc. and Its Wholly-Owned Subsidiaries		
8.875% debentures due 1999 (US$100)	$ –	$ 153
7.5% debentures due 2003 (US$150)	216	230
Revenue bonds due to 2004 (US$29; 1998 – US$35)	41	54
6.875% debentures due 2005 (US$200)	289	306
7% promissory note due to 2006 (US$15)	22	23
Bank term loans due to 2003 (£6; 1998 – £15)	15	38
Other debt	9	3
Joint Ventures		
8.95% senior notes due to 2005 (US$63)	–	88
Bank term loans due to 2003 (US$3)	4	4
Environmental bonds due to 2025 (US$6)	9	10
Other debt	–	3
	605	912
Current portion of long-term debt	(11)	(168)
Long-term debt	$ 594	$ 744

Maturities of long-term debt at December 31, 1999 are as follows:
2000 – $11; 2001 – $15; 2002 – $10; 2003 – $242; 2004 – $9 and subsequent – $318.

Bank term loans include short-term borrowings which are classified as long-term debt as they are supported by committed term bank lines expiring through 2005 and bear interest at various money market rates. At December 31, 1999, these lines totalled $633, of which $68 had been utilized.

The Company has entered into interest rate swap agreements of US$200 which effectively convert a portion of its debentures interest expense from fixed rates to floating rates to July 2003 and November 2005. The terms of the swaps correspond to the terms of the underlying debt issues.

Foreign currency-denominated debt is designated as a hedge against foreign currency-denominated assets.

In 1998, the Company closed out interest rate swap agreements totalling $290 for proceeds of $13. This gain is being amortized over the term of the debt which was effectively hedged by these swaps.

The effective interest rate on Nexfor's debt-related obligations is 6.56% at December 31, 1999. The aggregate fair value of Nexfor's debt-related obligations is $590, consisting of debt of $578 and an unrealized loss on interest rate swaps of $12.

	1999	1998
Interest on long-term debt	$ 52	$ 64
Interest on other debt	1	2
Total interest expense	$ 53	$ 66

Total interest paid during the year was $64 (1998 – $67), including interest capitalized on plant and equipment under construction of $7 (1998 – $1).

7. Shareholders' Equity

	1999	1998
Capital stock:		
8,000,000 class A preferred shares Series 1	$ 200	$ 200
151,216,919 common shares (1998 – 153,706,304)	954	970
Retained earnings	286	94
Foreign exchange translation adjustment	7	6
	1,447	1,270
Executive share purchase plan loans	(13)	(13)
	$ 1,434	$ 1,257

As at December 31, 1999, the authorized capital stock of the Company is as follows:

- Class A preferred shares, an unlimited number; 20,000,000 Series 1, bearing dividends at 72% of prime plus an adjustment factor (currently 28% of prime), cumulative and redeemable at issue price.
- Class B preferred shares, an unlimited number.
- Non-voting participating shares, an unlimited number.
- Common shares, an unlimited number.

Summary of common share transactions:

	1999		1998	
	Shares	Amount	Shares	Amount
Balance, beginning of year	**153,706,304**	**$ 970**	154,692,637	$ 976
Stock option plan	**–**	**–**	2,000	–
Dividend reinvestment plan	**25,115**	**–**	58,067	–
Repurchase of common shares	**(2,514,500)**	**(16)**	(1,106,400)	(6)
Executive share purchase plan	**–**	**–**	60,000	–
Balance, end of year	**151,216,919**	**$ 954**	153,706,304	$ 970

Basic earnings per share is based on the weighted average number of common shares outstanding during the year of 150,381,881 (1998 – 153,603,585). Fully diluted earnings per share is based on the weighted average number of common shares outstanding, adjusted for stock options outstanding, of 153,082,618 (1998 – 155,516,858). The common shares pledged under the Company's executive share purchase plan are deducted from the weighted average number of common shares outstanding.

During 1998, the Board of Directors approved an extension of the Company's plan to buy back up to 5% of its common shares before December 3, 1999. The Board of Directors extended the plan to December 8, 2000, during 1999.

Loans receivable from officers and employees of $13 (1998 – $13) under the Company's executive share purchase plan are included as a reduction of shareholders' equity. Loan repayments will result in a corresponding increase in shareholders' equity. The loans mature in 2007 through 2018, are callable by the Company at any time, and are secured by a pledge of 1,148,700 (1998 – 1,148,700) common shares. The repayment terms of the loans are reviewed by the Board of Directors on an annual basis.

Under the Company's stock option plan, the Board of Directors of the Company may issue stock options to certain executives and senior officers of Nexfor. These options vest over a five year period and expire ten years from the date of issue.

Members of the stock option plan can settle their options in one of the following three ways:

a. By purchasing the shares at the option price,
b. By receiving shares with the number of shares issued calculated as the difference between the option price and the current market price divided by the current market price, or
c. By receiving cash equal to the difference between the option price and the current market price.

The following table summarizes the changes in options outstanding and the impact on weighted average per share exercise price during the year:

	1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance, beginning of the year	**1,944,450**	**$ 9.36**	1,499,450	$ 9.72
Options granted	**1,110,000**	**6.20**	642,000	8.42
Options exercised	**(13,200)**	**8.58**	(26,500)	8.50
Options expired	**(217,500)**	**12.44**	(132,500)	9.21
Options cancelled	**(237,250)**	**7.88**	(38,000)	8.78
	2,586,500	**$ 7.88**	1,944,450	$ 9.36
Exercisable at year end	**855,730**	**$ 9.25**	944,290	$ 10.05

The following table summarizes the weighted average per share exercise prices and the weighted average remaining contractual life of the options outstanding at December 31, 1999:

Range of exercise prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Vested	Weighted Average Exercise Price
$6.00–$6.25	1,035,500	9.0 years	$ 6.13	5,000	$ 6.22
$8.50–$9.67	1,307,800	6.0 years	8.74	611,850	8.69
$10.00–$12.50	243,200	0.3 years	10.73	238,880	10.74
	2,586,500	6.7 years	$ 7.88	855,730	$ 9.25

8. Income Taxes

	1999	1998
Earnings before income tax expense	$ 316	$ 89
Tax at combined statutory rates	$ 132	$ 37
Effect of:		
Tax differences relating to sale of operations	(80)	–
Capital losses not recognized for accounting purposes	(3)	–
Rate differences on manufacturing activities	(5)	(2)
Rate differences on foreign activities	(7)	(5)
Non-taxable income and expenses	7	5
Large corporations tax and other	6	7
Income tax expense	$ 50	$ 42

Income and income-related taxes of $27 (1998 – $16) were paid during the year.

As a result of the distribution of shares of Nexfor by Noranda Inc. at the end of 1998, Nexfor was able to reallocate the tax values of certain of its assets. This resulted in lower taxes on the sale of Northwood Inc. and the power assets.

9. Provision for Paper and Pulp Operations

During 1999, the Company completed a strategic review of its paper and pulp operations. Certain of these operations have generated low or negative financial returns in recent years partly as a result of continuing weak markets despite a commitment by management to improve profitability. In light of the Company's long-term expectations regarding the markets for certain grades of paper and pulp, it was determined that a provision was required against the carrying values of these assets.

The company compared the carrying value of these assets to the future cash flows these assets are projected to generate. As a result, the Company has taken a charge against these operations of $244, represented by asset write-downs of $219 and severances and other costs of $25.

10. Change in Non-Cash Working Capital

The net change in non-cash working capital balances is comprised of:

	1999	1998
Cash provided by (used for):		
Accounts receivable	$ 7	$ 1
Inventory	22	36
Accounts payable and accrued liabilities	(6)	4
	$ 23	$ 41

Changes in bank advances and current portion of long-term debt are included in debt incurred (repaid), net.

11. Sale of Operations

During 1999, the Company sold its shares in Northwood Inc. to Canfor Corporation. Proceeds consisted of cash (net of expenses and cash sold) of $188 and convertible subordinated debentures of Canfor totalling $78. The Company recorded a gain on the transaction of $130 or $108, net of tax.

During 1999, the Company sold its power generation, transmission and distribution assets in Québec to GLPT. Proceeds consisted of cash (net of expenses) of $132, a loan receivable from GLPT of $100 and 4,749,285 trust units of Great Lakes Hydro Income Fund. The Company recorded a gain of $202 or $169, net of tax.

During 1998, the Company sold a newsprint mill located in Masson-Angers, Québec, for cash proceeds of $160, with no impact on net earnings.

12. Investment in CSC Forest Products Limited

In November 1999, Nexfor acquired the 50% of CSC Forest Products Limited that it did not already own for cash consideration of $118 (£50). The consolidated statement of earnings includes 50% of the earnings of CSC Forest Products Limited until November 17, 1999 and 100% of the earnings thereafter. The allocation of the purchase price is as follows:

	1999
Working capital	$ 32
Fixed assets	168
Debt and other liabilities	(82)
	$ 118

13. Pension Plans

Nexfor has a number of pension plans, participation in which is available to substantially all employees after varying periods of up to two years of continuous service. Hourly employees are generally members of negotiated plans. Nexfor's obligation under its defined benefit plans is determined periodically through the preparation of actuarial reports which are based on projected interest rates, asset returns, employee compensation levels and length of service to the time of retirement. The funded status of these plans at December 31 was as follows:

	1999	1998
Pension fund assets at market-related values	$ 533	$ 540
Pension benefit obligation	528	553
Net pension surplus (obligation)	5	(13)
Pension provision recorded in the accounts	40	29
Net pension provision in excess of surplus/obligation	$ 45	$ 16

The market value of pension fund assets at December 31, 1999, was $549.

14. Commitments

The Company has entered into forward foreign exchange contracts of US$242 (1998 – US$29) and £173 (1998 – £71) which are designated as a hedge against its net investment in self-sustaining foreign subsidiaries.

The Company has entered into forward foreign exchange contracts of US$120 which are designated as a hedge of anticipated future US dollar-denominated net sales. These agreements mature at various dates to December 15, 2000, at an average exchange rate of US$1.00 equals Cdn$1.4807.

Nexfor has entered into various commitments for capital expenditures and the future supply of operating services and materials of approximately $209 million. Nexfor has entered into forward foreign exchange contracts to fix the domestic currency amount for certain of these expenditures, including DEM37 at a rate of US$1.00 equals DEM1.8918, which mature at various dates to April 4, 2001.

15. Significant Differences in Generally Accepted Accounting Principles in Canada and the United States

The significant differences in earnings resulting from the application of generally accepted accounting principles in the United States ("U.S. GAAP") are set out below.

		1999		1998
Earnings in the consolidated statements of earnings	$	**266**	$	47
Unrealized gain on foreign exchange contracts (1)		**4**		11
Provision for paper and pulp operations (2)		**(27)**		–
Deferred income taxes (3)		**–**		3
Capitalized start-up costs (4)		**(1)**		–
Income taxes relating to above adjustments		**9**		(6)
Income taxes relating to sale of operations (3)		**(25)**		–
Earnings in accordance with U.S. GAAP (5)	$	**226**	$	55
Change in foreign exchange translation adjustment (6)		**(1)**		(5)
Comprehensive income in accordance with U.S. GAAP	$	**225**	$	50
Earnings per common share (6) – Basic	$	**1.42**	$	0.27
– Fully diluted	$	**1.39**	$	0.27

(1) Under U.S. GAAP, unrealized gains or losses on forward foreign exchange contracts which serve to hedge anticipated future foreign currency-denominated net sales are recognized in income based on exchange rates at the balance sheet date.

(2) Under U.S. GAAP, the estimated future cash flows used to determine the recoverability of the paper and pulp assets must exclude carrying charges. In addition, the provision against these operations was determined by discontinuing the cash flows and comparing to the carrying costs of those assets.

(3) Nexfor follows the deferral method of accounting for deferred income taxes. Under U.S. GAAP, future income taxes are accounted for using the accrual method whereby future income tax assets and liabilities are recognized on all temporary differences between the accounting values of assets and liabilities and their related tax values.

(4) Under U.S. GAAP, costs incurred net of revenues earned during the start-up of a new production facility must be charged to income in the year incurred.

(5) Nexfor has accounted for stock options under Accounting Principles Board Opinion No. 25, which results in the recording of no compensation expense.

(6) Under U.S. GAAP, certain direct credits or charges to shareholders' equity must be included in the determination of comprehensive income. Earnings per common share under U.S. GAAP is calculated based on earnings in accordance with U.S. GAAP.

(7) Under U.S. GAAP, proportionate consolidation of investments in joint ventures is generally not permitted. However, under certain rules promulgated by the United States Securities and Exchange Commission, Nexfor has continued to follow the proportionate consolidation method, subject to the inclusion of the information provided in note 17.

16. Segmented Information

Nexfor operates principally in Canada, the United States and the United Kingdom, and is divided into three main operating segments: Building Materials, Paper and Pulp, and Energy. In 1998, Nexfor decided to sell its interest in its energy segment and started to disclose it as a separate operating segment in 1999. Also in 1999, the Company sold a significant portion of its pulp operations. The remaining pulp operations were combined with the paper operations and are now managed as one segment.

a) Operating Segments

	Building Materials	Paper & Pulp	Energy	Consolidated Total
1999				
Net sales	**$ 1,259**	**$ 1,138**	**$ 34**	**$ 2,431**
Operating earnings (loss), before provision for paper and pulp operations	**264**	**(13)**	**23**	**274**
Assets				
Segmented	**1,197**	**989**	**–**	**2,186**
Non-segmented and corporate assets				**33**
Temporary investments				**196**
Cash and short-term notes				**159**
Total assets				**2,574**
Depreciation	**$ 73**	**$ 87**	**$ 2**	**$ 162**
Capital expenditures	**$ 206**	**$ 44**	**$ 7**	**$ 257**

Net sales for energy exclude $6 sales to the paper & pulp segment.

	Building Materials	Paper & Pulp	Energy	Consolidated Total
1998				
Net sales	$ 1,105	$ 1,300	$ 21	$ 2,426
Operating earnings	123	11	19	153
Assets				
Segmented	1,025	1,499	46	2,570
Non-segmented and corporate assets				24
Cash and short-term notes				181
Total assets				$ 2,775
Depreciation	$ 68	$ 97	$ 2	$ 167
Capital expenditures	$ 96	$ 120	$ 6	$ 222

Net sales for energy exclude $18 sales to the paper & pulp segment.

b) Geographic Segments

Net sales by geographic segment are determined based on the country of shipment.

	Net Sales		Property Plant and Equipment	
	1999	1998	**1999**	1998
Canada [1]	**$ 1,055**	$ 1,052	**$ 545**	$ 930
United States	**1,134**	1,123	**754**	801
United Kingdom	**242**	251	**378**	214
Consolidated Total	**$ 2,431**	$ 2,426	**$ 1,677**	$ 1,945
[1] Export sales included in total	**$ 597**	$ 722		

17. Investments in Joint Ventures

During 1999, the Company sold its interest in Northwood Inc. and purchased the 50% of CSC Forest Products Limited it did not already own, making it a wholly-owned subsidiary. Nexfor's shares of the assets, liabilities and equity, revenues and expenses and cash flows of its significant joint ventures (each of which was 50%-owned prior to these transactions) for the years ended December 31, 1999 and 1998 are as follows:

	Northwood Inc.		CSC Forest Products Limited	
	1999 (1)	1998	**1999** (2)	1998
Current assets	**$ –**	$ 140	**$ –**	$ 71
Property, plant and equipment	**–**	209	**–**	214
Investments and other assets	**–**	5	**–**	–
	$ –	$ 354	**$ –**	$ 285
Current liabilities	**$ –**	$ 78	**$ –**	$ 62
Long-term debt	**–**	88	**–**	36
Deferred income taxes and other liabilities	**–**	33	**–**	24
Equity	**–**	155	**–**	163
	$ –	$ 354	**$ –**	$ 285
Net sales	**$ 390**	$ 378	**$ 193**	$ 251
Operating costs	**338**	396	**195**	234
Operating earnings (loss)	**52**	(18)	**(2)**	17
Interest expense	**(6)**	(8)	**(2)**	(2)
Income tax recovery (expense)	**(18)**	9	**1**	(5)
Share of earnings (loss) of joint ventures	**$ 28**	$ (17)	**$ (3)**	$ 10
Cash provided by (used for):				
Operating activities	**$ 72**	$ 23	**$ (3)**	$ 26
Investment activities	**(12)**	(19)	**(28)**	(38)
Financing activities (including dividends)	**(18)**	(4)	**35**	10

(1) Revenues, expenses and cash flows for 1999 are for the period January 1, 1999 to November 23, 1999.

(2) Revenues, expenses and cash flows for 1999 are for the period January 1, 1999 to November 17, 1999.

18. The Year 2000 Issue (Y2K)

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. To date, Nexfor's operations have not been negatively effected by the Year 2000 Issue. Nexfor is continuing to monitor that its computer systems are Year 2000 compliant. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting Nexfor, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

Selected Quarterly Information

(in millions, except per share information)	1999 1st	2nd	3rd	4th	Total
Earnings					
Net sales	$ 575	$ 608	$ 658	$ 590	$ 2,431
Operating costs:					
Cost of sales	475	468	475	468	1,886
Depreciation	42	40	41	39	162
Selling, general and administrative	28	28	27	26	109
	545	536	543	533	2,157
Operating earnings					
Ongoing operations	20	55	79	45	199
Operations sold	10	17	36	12	75
	30	72	115	57	274
Provision for paper and pulp operations	–	–	–	(244)	(244)
Interest and other income	1	1	1	336	339
Interest expense	(15)	(14)	(14)	(10)	(53)
Income tax expense	(8)	(24)	(41)	23	(50)
Earnings	$ 8	$ 35	$ 61	$ 162	$ 266
Earnings per share – basic	$ 0.03	$ 0.21	$ 0.38	$ 1.06	$ 1.68
– fully diluted	0.03	0.21	0.38	1.03	1.65
Common dividend per share	0.10	0.10	0.10	0.10	0.40
Net sales					
Building materials	$ 291	$ 330	$ 342	$ 296	$ 1,259
Paper and pulp	276	268	305	289	1,138
Energy	8	10	11	5	34
Total net sales	$ 575	$ 608	$ 658	$ 590	$ 2,431
Operating earnings (loss)					
Building materials	$ 41	$ 81	$ 100	$ 42	$ 264
Paper and pulp [1]	(17)	(17)	8	13	(13)
Energy	6	8	7	2	23
Total operating earnings [1]	$ 30	$ 72	$ 115	$ 57	$ 274

(1) Before paper and pulp provision.

(in millions, except per share information)	1998 1st	2nd	3rd	4th	Total
Earnings					
Net sales	$ 571	$ 581	$ 644	$ 630	$ 2,426
Operating costs:					
Cost of sales	485	470	507	527	1,989
Depreciation	41	41	42	43	167
Selling, general and administrative	28	29	31	29	117
	554	540	580	599	2,273
Operating earnings					
Ongoing operations	19	36	53	24	132
Operations sold	(2)	5	11	7	21
	17	41	64	31	153
Provision for paper and pulp operations	–	–	–	–	–
Interest and other income	–	1	–	1	2
Interest expense	(15)	(17)	(17)	(17)	(66)
Income tax expense	(2)	(12)	(20)	(8)	(42)
Earnings	$ –	$ 13	$ 27	$ 7	$ 47
Earnings per share – basic	$ (0.02)	$ 0.06	$ 0.15	$ 0.03	$ 0.22
– fully diluted	(0.02)	0.06	0.15	0.03	0.22
Common dividend per share	0.10	0.10	0.10	0.10	0.40
Net sales					
Building materials	$ 246	$ 269	$ 294	$ 296	$ 1,105
Paper and pulp	320	307	345	328	1,300
Energy	5	5	5	6	21
Total net sales	$ 571	$ 581	$ 644	$ 630	$ 2,426
Operating earnings (loss)					
Building materials	$ 10	$ 25	$ 53	$ 35	$ 123
Paper and pulp	3	11	5	(8)	11
Energy	4	5	6	4	19
Total operating earnings	$ 17	$ 41	$ 64	$ 31	$ 153

Six-Year Historical Review

(in millions, except per share information)	1999	1998
Earnings		
Net sales	$ 2,431	$ 2,426
Operating costs:		
Cost of sales	1,886	1,989
Depreciation	162	167
Selling, general and administrative	109	117
	2,157	2,273
	274	153
Reorganization costs	–	–
Operating earnings (before paper and pulp provision)	274	153
Provision for paper and pulp operations	(244)	–
Gain on sale of operations and other income	339	2
Interest expense	(53)	(66)
Income tax expense	(50)	(42)
Earnings	$ 266	$ 47
Balance Sheet		
Current assets	$ 865	$ 801
Net fixed assets	1,677	1,945
Investments and other assets	32	29
Total assets	$ 2,574	$ 2,775
Current liabilities	$ 381	$ 604
Long-term debt	594	744
Other liabilities	92	109
Deferred income taxes	73	61
Shareholders' equity and convertible debentures	1,434	1,257
Total liabilities and shareholders' equity	$ 2,574	$ 2,775
Cash Flow		
Cash flow from operations	$ 386	$ 301
Capital expenditures	(257)	(222)
Investments, net	195	117
Dividends	(74)	(75)
Debt incurred (repaid)	(256)	24
Issue (repurchase) of common shares	(16)	(6)
Other	–	13
Increase (decrease) in cash and short-term notes	$ (22)	$ 152
Per Common Share		
Earnings – basic	$ 1.68	$ 0.22
– fully diluted	1.65	0.22
Book value	8.22	6.93
Dividends	0.40	0.40
Market price range		
High	10.15	10.20
Low	5.70	5.80
Close	8.40	6.05

Note: In 1999, Nexfor began accounting for its non-pension retirement benefits on an accrual basis.
The unrecorded projected benefit obligation of $39 million ($24 million net of tax) has been charged to opening retained earnings in 1998.

1997	1996	1995	1994
$ 2,272	$ 2,296	$ 2,407	$ 1,801
1,866	1,871	1,780	1,340
155	138	113	109
122	141	148	112
2,143	2,150	2,041	1,561
129	146	366	240
(31)	(52)	–	–
98	94	366	240
–	–	–	–
7	20	44	78
(58)	(53)	(64)	(68)
(28)	(34)	(131)	(104)
$ 19	$ 27	$ 215	$ 146
$ 689	$ 808	$ 993	$ 861
1,962	1,906	1,773	1,260
12	9	27	149
$ 2,663	$ 2,723	$ 2,793	$ 2,270
$ 420	$ 406	$ 416	$ 406
828	823	842	546
57	66	60	47
38	34	30	(32)
1,320	1,394	1,445	1,303
$ 2,663	$ 2,723	$ 2,793	$ 2,270
$ 114	$ 286	$ 323	$ 250
(180)	(274)	(352)	(241)
(12)	12	93	392
(73)	(75)	(72)	(66)
(21)	(44)	233	(255)
(15)	1	1	4
–	–	–	–
$ (187)	$ (94)	$ 226	$ 84
$ 0.06	$ 0.10	$ 1.45	$ 1.01
0.06	0.10	1.32	0.91
7.29	7.67	8.00	6.85
0.40	0.40	0.40	0.40
10.50	9.90	12.63	14.25
7.25	8.50	8.63	9.88
7.75	9.30	8.88	11.13

Principal Operating Interests

	Annual Capacity at Year End 1999	Production 1999	Production 1998
Building Materials			
Lumber (MMfbm)			
Plaster Rock, New Brunswick	115	97	86
La Sarre, Québec	120	100	87
Senneterre, Québec	140	140	137
Ashland, Maine	60	61	62
Masardis, Maine	110	104	107
Houston, British Columbia (1)	–	178	186
Upper Fraser, British Columbia (1)	–	117	115
Prince George, British Columbia (1)	–	69	64
Prince George, British Columbia (1)	–	95	105
Prince George, British Columbia (2)	–	–	7
	545	961	956
OSB (MMsf 1/16")			
Val-d'Or, Québec	1,800	1,713	1,636
La Sarre, Québec	2,100	1,860	1,814
Guntown, Mississippi	2,600	2,271	2,319
Bemidji, Minnesota (3)	1,200	1,203	1,188
Joanna, South Carolina (4)	3,000	–	–
Inverness, Scotland (5)	1,600	826	758
	12,300	7,873	7,715
MDF (MMsf 1/16")			
Deposit, New York	900	906	835
Cowie, Scotland (5)	2,300	815	704
	3,200	1,721	1,539
Particleboard (MMsf 1/16")			
Cowie, Scotland (5)	3,600	1,590	1,556
South Molton, England (5)	1,800	945	865
	5,400	2,535	2,421
Plywood (MMsf 1/16")			
Cochrane, Ontario	480	478	443
Prince George, British Columbia (1)	–	426	432
	480	904	875

	Annual Capacity at Year End 1999	Production 1999	Production 1998
Paper and Pulp			
Woodfree Paper (000 tonnes)			
Madawaska, Maine	**215**	**210**	201
Park Falls, Wisconsin	**115**	**105**	118
West Carrollton, Ohio	**105**	**92**	96
	435	**407**	415
Groundwood Paper (000 tonnes)			
Madawaska, Maine	**175**	**171**	178
Newsprint (000 tonnes)			
Masson-Angers, Québec (6)	–	–	203
Paperboard (000 tonnes)			
Edmundston, New Brunswick	**50**	**53**	48
Pulp (000 tonnes)			
Thurso, Québec	**245**	**238**	228
Prince George, British Columbia (1)	–	**241**	266
	245	**479**	494
Energy			
Hydroelectric Power (Gwh)			
Masson-Angers, Québec (7)	–	**1,261**	1,138

(1) Sold November 1999. Production represents 50% ownership prior to sale.
(2) Closed permanently June 1998. Production represents 50% ownership prior to closure.
(3) Owned 50%. Capacity and production represent 50% ownership.
(4) Scheduled to begin production in the first quarter of 2000.
(5) Increased ownership to 100% from 50% in November 1999. Production represents 50% prior to December 1999 and 100% thereafter.
(6) Sold December 1998.
(7) Sold November 1999.

How are we operating sustainably?

1999 Environmental Performance

Environmental Policy

Nexfor Inc. recognizes that our environment is fundamental to our existence, and that our businesses and the communities where we operate depend upon its health. We strive for excellence, leadership, sustainability and competitive advantage, with integrity, through continual improvement in our environmental performance and management of forest land. For Nexfor, sustainable development means creating economic growth while caring for society and the environment.

Nexfor and its operations will integrate environmental protection into our business processes and decisions. Our belief in sustainable development means we are committed to:

Full Compliance

Comply fully with all applicable environmental legislation and regulations that affect our activities.

Forest Management

Manage forests in a manner consistent with the principles of sustainable forestry, this policy and applicable legislation.

Minimization of Environmental Impact

Improve our environmental performance as the expectations of society change. We shall do this by using forest, energy and other resources with increasing efficiency, and by reducing all forms of waste.

Risk Management

Continually identify, evaluate, and control the environmental risks associated with our operations. We shall have procedures in place to prevent and respond to emergencies.

Environmental Management Systems

Implement systematic environmental management which supports this policy at every operation. We shall assign appropriate human and financial resources. Every year we shall establish measurable objectives and targets for environmental management and performance improvement.

Innovation

Support pollution prevention and environmental research, and implement findings consistent with this policy.

Performance Evaluation

Evaluate the environmental performance of our operations and personnel, and recognize achievements that support this policy. We shall provide our employees with information and training for them to fully integrate this policy into their responsibilities at work.

Communications with Stakeholders

Engage in a constructive dialogue with the communities in which we operate and other key stakeholders, taking their needs into account when we make our decisions.

Open Government Relationships

Work constructively with governments and regulators on the establishment of scientifically and economically sound requirements for our operations.

Audits

Conduct environmental audits at all our operations at a frequency appropriate to their risks.

Reports

Report regularly on our environmental performance to the management of the corporation, the board of directors, our shareholders, employees and the communities in which we operate.

Nexfor Inc. requires its operations to develop policies, systems, organizations, and competencies, and to embrace an environmental commitment consistent with these principles. Nexfor requires all employees to take responsibility for environmental protection in their jobs.

How are we operating sustainably?

For Nexfor, sustainable development means creating economic growth while caring for society and the environment. We continue to integrate environmental protection into our business practices and decisions. Company-wide initiatives focused on reducing impacts, improving processes, and applying new technologies in 1999. This year's environmental review highlights our actions with compliance, emergency response, and community involvement. The Selected Environmental Targets on page 76 summarize Nexfor's five target areas for environmental performance, and the Five-Year Performance Data on page 79 reviews mill by mill results.

Mill By-products Provide Valuable Soil Nutrients

Making the most of our resources, Nexfor mills continue to find beneficial uses for their by-products. Edmundston recently began a program to utilize the ash produced as a by-product of its wood-fired cogeneration facility. This ash contains a variety of nutrients essential to sustaining crop yields, including potassium and phosphorous, as well as micro-nutrients such as magnesium, copper, and zinc. An economical alternative to lime, the ash is being spread on agricultural lands in the neighbouring state of Maine. Ash from our Park Falls mill also has value both as a liming agent and fertilizer. An ash-spreading program has received preliminary approval from the state, and should begin in the spring. To guide the proper use of by-products, the mills are using a thorough management process. By-products must be analyzed to meet the demands of regulation and customers, and to ensure consistent high quality. Similiar programs providing ash for agricultural or horticultural use are also in place at the Bemidji, La Sarre (OSB) and Guntown operations.

Nexfor Takes Early Action on Climate Change

Since the early 1990s, Nexfor and the Canadian pulp and paper industry have acted as leaders in greenhouse gas reduction. The Canadian government signed the Kyoto Protocol to the Global Climate Change Convention in 1997, committing industry to a 6% reduction in carbon dioxide (CO_2) levels by 2010. By 1997, forest industry CO_2 emissions were 16% lower than 1990 levels. Nexfor's 1998 [1] Canadian emissions were 23% below 1990 levels – despite production increases. Nexfor's improvement is due to increased production efficiencies and burning biomass instead of oil at our wood-fired cogeneration plant in Edmundston. In an industry that has achieved major reduction – in advance of other sectors and national deadlines – we are optimistic that any new CO_2 policies will reward our efforts and create opportunities for future progress.

(1) most recent data available

New Treatment System Eliminates Liquid Effluent

With the start-up of its new effluent treatment system, our mill in Cowie has gone from releasing 145,000 tonnes of liquid effluent in 1998, to close to zero by the end of 1999. As part of its new MDF line, Cowie replaced its biological treatment system with one that cleans the water to such a degree that it can be re-used. Effluent undergoes initial treatment to remove solids, which are sold as an agricultural fertilizer. It is then filtered through a series of fine membranes which divide it into clean water and contaminated liquid concentrate. The water is recycled, and the liquid concentrate is used in wet electrostatic precipitators to suppress emissions from the mill's dryers. Although the treatment system presented various technological challenges during its six months of operation, it has lowered operating costs significantly. In addition to eliminating fees for the release of liquid effluent, the mill has reduced its purchases of fresh water by 48%.

Mill Study Could Affect International Testing Standards

A study at our Edmundston pulp mill gives Canada an opportunity to contribute to the global understanding of effluent effects on fish. In 1994, Cycle I of Nexfor's Environmental Effects Monitoring program indicated reproductive effects in fish downstream from the mill. The Nexfor Technology Centre (NTC) created a state-of-the-art science lab on wheels, outfitted with equipment to do long-term research on site. NTC and the mill worked closely with senior Environment Canada researchers to test the effects of different effluent concentrations over a four-month period. Initial results with the new test procedure confirmed that compounds in the effluent were affecting fish. A number of changes were made to mill processes to address the situation. Further monitoring will show if these changes were effective. It is hoped that the information collected at Edmundston will contribute to international testing standards for substances suspected of having reproductive effects on fish.

Mill Seeks Alternative to End-of-Pipe Solution

Changes to Maine's effluent regulations mean our Madawaska paper mill must meet new requirements for chronic toxicity. Secondary treatment is one way to resolve the issue, and a system has been tested and approved. But the mill would like to avoid this very costly end-of-pipe solution in favour of a different solution – in-mill process changes. A team from the Nexfor Technology Centre has devoted considerable time and effort to the problem. The team pilot-tested innovative ozone treatment, and is now examining various upstream solutions. These include reducing the amount of water and chemicals used, and changing the chemical recipe. To ensure continued compliance, the funds have been approved and work will begin on the secondary treatment system if a cost-effective alternative cannot be found in the next few months.

U.K. Mills Reduce Waste, Create Revenue Stream

Ahead of changes to the U.K.'s packaging waste regulations, CSC has broadened its activities to include the collection of post-consumer wood waste. Since 1998, companies in the U.K. have been required to recover a portion of their product packaging – be it paper, paperboard, plastic, glass, or metal. They collect an equivalent amount directly from consumers, or buy certificates from others, who recover the waste on their behalf. In 2000, the regulations were expanded to include solid wood packaging. As a major recycler, CSC has long used wood waste in the manufacture of particleboard. With the new recovery program, it collected far more than it needs to comply with the new regulation. In 1999, Cowie and South Molton combined recovered 204,000 tonnes of post-consumer wood waste – half of which was packaging – representing 100 times their required amount. CSC is now in a position to sell certificates for the excess over quota, generating revenue and reducing the amount of waste sent to landfill.

The Evolution of Emergency Preparedness

Nexfor operations continue to develop emergency preparedness systems as a way to protect employees and the community, and minimize potential risks. More comprehensive than traditional plans, emergency preparedness systems require mills to systematically document and integrate all related procedures. In 1999, operations used a self-assessment tool to evaluate their readiness to deal with emergency situations. The assessment included areas such as roles and responsibilities, communication, detection and response equipment, and evacuation procedures. Training for employees and contractors incorporated drills and simulations involving local emergency services and community organizations. Although the majority of mills have functioning plans in place, they continue to evolve to reflect new information, expertise, and technologies.

Building Relationships with First Nations

We continue working with First Nations communities to address multiple land use concerns, and share information on forestry practices. In New Brunswick, we co-sponsored a forest worker training program for the Tobique First Nation, which focused on pre-commercial thinning methods – and inspired ongoing silvicultural contracts between Nexfor and the local Band. We're also exploring a project – with the Maliseet of the Tobique First Nation, the Mohawk Council of Akwesasne, the University of Ottawa, and the Canadian Forest Service – to integrate traditional ecological knowledge into forest management planning. In Québec, a member of the Waskaganish Band works with company foresters to develop plans that are respectful of the Native way of life, while continuing to address our business goals. This year, as part of its yearly contract with Nexfor, the Band planted one million seedlings.

Selected Environmental Targets

Nexfor targets five areas for environmental performance: environmental management systems, impact minimization, stakeholder needs, risk management and compliance. These targets were created to assist with goal setting and promote a continual improvement culture at all operations.

Target Areas	1999 Targets
Environmental Management Systems (EMS) EMS guide operations with a systematic approach to planning, measurement, auditing and review.	▪ All operations – Full EMS by 2000. ▪ Senneterre – Begin development of sustainable forest management system.
Impact Minimization To minimize environmental impacts, mills set targets for material efficiency and energy use. Higher material efficiency indicates less waste discharge. A lower fossil fuel and specific energy factor denote reduced energy use.	▪ Park Falls – Reach material efficiency of 89%. ▪ Edmundston – Maintain specific energy at 19.6 GJ/t. ▪ West Carrollton – Reduce fossil fuel use by 7.5%. ▪ Thurso – Attain material efficiency of 86.4%. ▪ All North American panelboard mills – Increase wood usage (MDF by 0.9%, Plywood by 0.4%, Lumber by 1.3%).
Stakeholder Needs Open dialogue with communities and stakeholders is critical to our success. All operations are expected to measure stakeholders' needs and expectations, and address them through fixed targets and planned activities.	▪ All Norbord operations – Complete implementation of crisis communication guidelines. ▪ Edmundston – Initiate community advisory group. ▪ Madawaska – Complete employee environmental training. ▪ West Carrollton – Hold annual meeting with regulators and community leaders. ▪ Thurso – Inform the community on mill by-product program. Continue employee environmental training.
Risk Management We systematically evaluate operations to determine the nature and severity of internal and external hazards, and to reduce the potential damage from these risks.	▪ Edmundston – Complete emergency response plan with local school. ▪ Bemidji and Guntown – Complete risk management planning. ▪ Madawaska – Provide the U.S. EPA with risk management plan. ▪ Thurso – Complete risk review recommendations. ▪ Val-d'Or – Improve mill ventilation. ▪ Senneterre – Create comprehensive oil leak and spill prevention plan.
Compliance All operations must meet environmental legislation and regulations that affect their activities. 100% compliance is our standing goal.	▪ All operations – 100% compliance. ▪ Madawaska – Develop secondary effluent treatment system. ▪ Deposit – Define air emission control strategy for oxides of nitrogen (NOx). ▪ Bemidji and Guntown – Initiate continuous particulate monitoring for heat energy systems. ▪ La Sarre (OSB) – Complete dryer particulate control installation. ▪ Val-d'Or – Finalize particulate control design and permitting.

1999 Performance	2000 Targets
▪ 10 of 14 North American operations have completed – or are near completion of – EMS. The remainder are expected to finalize their EMS by mid-2000. CSC operations have not yet been fully integrated into the program. ▪ Senneterre is 72% through development of its sustainable forest management plan.	▪ Complete/maintain EMS.
▪ Park Falls reached material efficiency of 93%. ▪ Edmundston reduced its energy use per tonne by 12%. ▪ West Carrollton fossil fuel use increased slightly over 1998 levels. ▪ Thurso material efficiency was 93%. ▪ The North American lumber and panelboard mills found the target framework inadequate. The system will be revamped in 2000.	▪ Reassess energy target framework to address site-specific concerns. Develop new framework and refine targets. ▪ Develop new material efficiency targets representative of mill-specific situations.
▪ Crisis communications systems were completed at Thurso and all of Norbord's Canadian mills. ▪ Edmundston identified potential advisory groups for continuing consultation. ▪ Madawaska and Thurso completed employee environmental training. ▪ West Carrollton holds regularly-scheduled community leader meetings. ▪ Thurso residents were informed of mill activities through public meetings and media coverage.	▪ Conduct community opinion surveys. ▪ Address nuisance odour and dust complaints. ▪ Develop/utilize forestry advisory panels to communicate mill issues.
▪ Edmundston completed its emergency response planning for the nearby school. ▪ Bemidji and Guntown completed risk management planning. ▪ Madawaksa completed its risk management plans as originally required. ▪ Thurso implemented 80% of risk review recommendations. ▪ Val-d'Or roof ventilation systems improvements were developed and approved for installation in early 2000. ▪ Senneterre has a spill prevention plan in place.	▪ Complete emergency preparedness management systems.
▪ Of over 20,000 compliance measurements at our paper and pulp mills, 15 exceeded regulatory limits. ▪ Madawaska has approved funding and plans for construction of a secondary effluent treatment system (see vignette, page 74). ▪ Deposit NOx controls require further investigation. ▪ Bemidji and Guntown installed monitoring equipment to address particulate compliance. ▪ La Sarre (OSB) completed installation of particulate controls. ▪ Val-d'Or has identified viable options for improved particulate emission control.	▪ 100% compliance. ▪ Guntown – Refine compliance monitoring methods. ▪ Val-d'Or – Install particulate control equipment on dryer #1.

Health and Safety Data

Category	Norbord (1)	Fraser Papers	Maclaren	Northwood (2)
Hours worked	5,613,000	7,196,000	967,000	3,579,000
Lost time accidents	69	11	10	42
Lost time frequency†	2.46	0.31	2.07	2.35
Days lost	1,319	676	102	1,473
OSHA recordable rate†	6.13	2.89	4.34	7.54

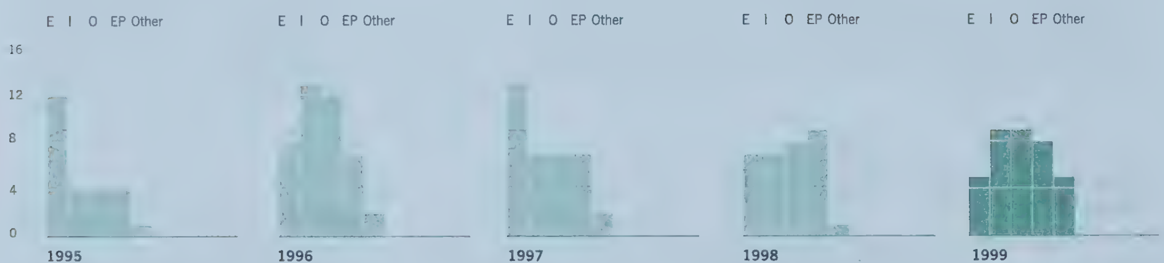
† per 200,000 hours worked

(1) Norbord data includes CSC and the Bemidji mill on a 100% basis.

(2) Data for Northwood is reported on a 100% basis.

Nexfor Audits

(number of audits)



E: Environmental
I: Industrial Hygiene
O: Occupational Health

EP: Emergency Preparedness
Other: Includes Forest and Land Management, EMS Audit Systems and other specialized reviews

Socioeconomic Data (1)

Category	Norbord (2)	Fraser Papers	Maclaren
($ amounts in thousands)			
Number of Employees	3,110	3,110	451
Wages, Salaries and Benefits	$ 164,000	$ 281,100	$ 52,400
Municipal and School Taxes	6,000	12,700	1,600
Local Purchases of Goods and Services	243,400	41,500	49,400
Logging Contractor Services (incl. fibre)	125,200	112,000	19,800
Wood Chips and Hog Fuel Purchases	91,100	38,800	13,500
Stumpage and Royalty	16,800	2,800	900
Environmental Capital Expenditures	4,400	9,700	1,000
Environmental Expenditures Not Capitalized	5,000	6,400	3,400
Total Operating Lease and Rental Payments	5,300	5,300	700
Philanthropic Contributions	200	400	100

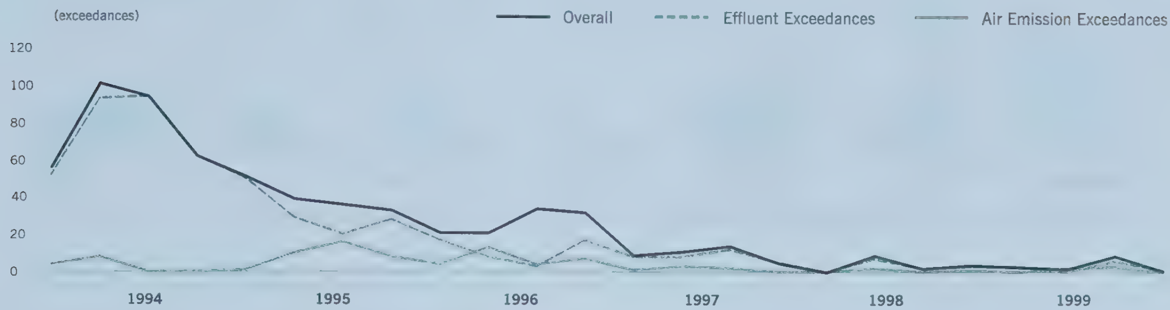
(1) Socioeconomic data includes continuing operations only.

(2) Norbord data includes CSC and the Bemidji mill on a 100% basis.

Five-Year Environmental Performance at a Glance

Air and Water Exceedances at Paper and Pulp Mills

(exceedances)



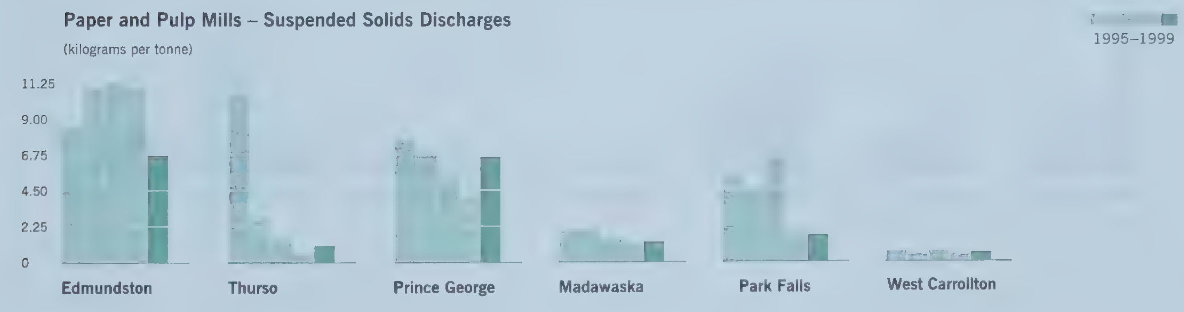
This data reflects performance for six years. Nexfor compliance reached 99.92% in 1999.

Paper and Pulp Mills – BOD Discharges

(kilograms per tonne)

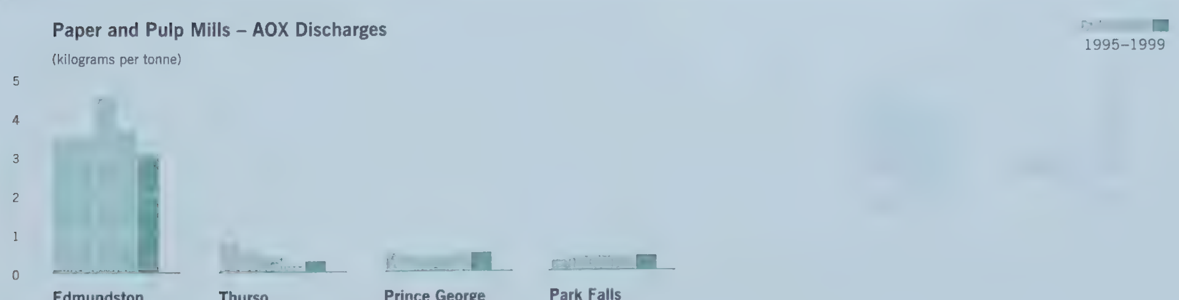
Paper and Pulp Mills – Suspended Solids Discharges

(kilograms per tonne)



Paper and Pulp Mills – AOX Discharges

(kilograms per tonne)



Paper and Pulp Mills – Chlorine Gas Use

(tonnes per year)

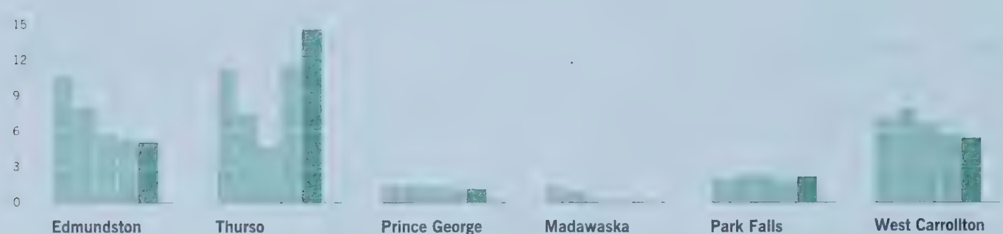
1995–1999

Thurso consumption was up due to increased specialty pulp production.

Paper and Pulp Mills – Sulphur Dioxide Emissions

(kilograms per tonne)

1995–1999



Thurso's annual results are estimated on a single testing sample, which was abnormally high in 1998 and 1999. Madawaska numbers decreased when the Edmundston cogeneration plant was commissioned in 1997.

Paper and Pulp Mills – Total Suspended Particulate Emissions

(kilograms per tonne)

1995–1999

Madawaska emissions were 0.1 kg/tonne in 1998 and 1999.

Kraft Pulp Mills – Total Reduced Sulphur Emissions

(kilograms per tonne)

1995–1999

Panelboard Mills – Volatile Organic Compound Emissions

(kilograms per 1,000 square feet, 1/16" basis)

At Guntown, testing showed increased emissions from the biofilter. Investigations are underway to identify the cause, and develop corrective actions.

Panelboard Mills – Formaldehyde Emissions

(kilograms per 1,000 square feet, 1/16" basis)

Panelboard Mills – Total Suspended Particulate Emissions

(kilograms per 1,000 square feet, 1/16" basis)

National Pollutant Release Inventory (NPRI) and Toxic Release Inventory (TRI) are toxic chemical release reporting programs in Canada and the United States, respectively. Reports are prepared according to a specific list of materials designated by each government. Annual reports of emissions from operations in Canada are submitted to the Federal Government each June. Therefore, our data is current to 1998. Data for 1999 will be reported to the government in June 2000.

The National Pollutant Release Inventory – Canada (NPRI)

(in metric tonnes)

			1997			1998		
Facility	Product	Material	Air	Water	Soil	Air	Water	Soil
Val-d'Or	OSB	Phenol	5.90			5.27		
		Formaldehyde	46.50			32.00		
Thurso	Kraft pulp	Chlorine	5.77			4.76		
		Chlorine dioxide	33.80			25.54		
		Ammonia		11.70	20.40		5.84	3.19
		Manganese					12.60	30.30
		Methanol			19.00	154.70		1.48
Edmundston	Sulphite pulp	Methanol	139.00			145.00		
		Sulphuric acid	6.00			6.00		
		Chlorine	14.00			96.00 (1)		
		Chlorine dioxide	10.09			30.00		
		Chloroform	7.37			7.50		
		Acetone	1.38			1.40		
		Acetaldehyde	0.69			0.70		
		Ammonia	0.30			0.23		
Prince George	Kraft pulp	Methanol	147.00			149.00		
		Chlorine dioxide	35.00			35.60		
		Chloroform	35.00			35.70		
		Ammonia		33.30			72.30	
		Phenol		22.00			22.40	
La Sarre	OSB	Phenol				0.90		
		Formaldehyde	11.20			12.20		
Cochrane	Plywood	Formaldehyde	6.94			7.24		

(1) New stack testing information.

Toxic Release Inventory – United States (TRI)

(in metric tonnes)

Facility	Product	Material	1997 Air	1997 Water	1997 Soil	1998 Air	1998 Water	1998 Soil
Park Falls	Papers	Formaldehyde	0.68	2.39	0.06	0.69	2.42	0.04
		Chlorine	0.07			0.07		
		Chloroform	11.20	0.06		11.70	0.06	
		Ammonia	0.89	0.22		0.25	2.55	1.41
		Methanol	4.49	7.20	0.46	4.16	6.61	0.36
		Hydrochloric acid	1.89			1.80		
		Copper compounds		0.09	0.93	0.04	0.09	1.16
		Glycol ethers	0.54	0.49		0.53	0.18	
West Carrollton	Papers	Ammonia	0.82	1.20		0.75	1.46	
		Phosphoric acid						0.10
		Hydrochloric acid	1.34			1.14		
Madawaska	Papers	None						
Deposit	MDF	Formaldehyde	18.30			17.80		
Bemidji	OSB	Phenol	0.07			0.07		
		Formaldehyde	36.30			6.36		
		Methanol				27.30		
Guntown	OSB	Phenol	0.04			0.05		
		Formaldehyde	0.76			0.84		

Accelerated Reduction and Elimination of Toxics (ARET)

(in metric tonnes)

Facility	Product	Material	Base Year	1998	1999	Year 2000 Target	Percent Reduction (1)
Edmundston	Sulphite pulp	Chloroform	14.00	10.89	11.29	3.20	19.40
Thurso	Kraft pulp	Chloroform	5.80	ND (2)	ND (2)	0.60	100.00
La Sarre	OSB	Formaldehyde	26.80	12.70	12.57	21.00	53.10
Val-d'Or	OSB	Formaldehyde	91.40	30.40	34.00	45.90	62.80
Prince George	Kraft pulp	Chlorine dioxide	52.00	15.70	35.90	33.00	31.00
		Chloroform	42.20	35.40	35.70	30.00	15.40

(1) In 1999 compared to the base year.

(2) ND: Not detectable – detection limit is 0.02 tonnes per year.

Forest Land Management Data

	Norbord	Fraser Papers	Maclaren [1]	Northwood [2]	Totals
Total area managed (ha)	1,969,000	816,000	1,738,000	1,380,000	5,903,000
Total volume harvested (m^3)	1,681,000	1,741,000	292,000	3,692,000	7,405,000
Total area harvested (ha)	21,600	18,000	5,100	11,300	55,900
Area clearcut (ha)	18,200	9,400	500	10,700	38,700
Area selective cut (ha)	3,400	8,600	4,600	600	17,100
Area replanted (ha)	4,400	3,700	27	10,200	18,300
Number of seedlings planted	7,600,000	7,269,000	66,000	15,349,000	30,284,000
Area of natural regeneration (ha)	13,800	7,100	5,100	0	25,900
Area NSR (ha)	0	800	0	0	800
Area of pesticide treatment (ha)	0	9,700	0	4,300	14,000

(1) Data for Maclaren in 1999 reflects change in the measurement method and the sale of the Masson-Angers mill.

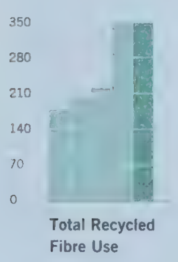
(2) Data for Northwood is reported on a 100% basis.

Five-Year Forest Land Management Historical Data

(thousands of hectares)

Total Recycled Fibre Use

(thousands of tonnes)



Seedlings Planted

(millions of seedlings)

Glossary of Terms

Annual Allowable Cut: The amount of wood which can be cut without jeopardizing long-term supply. Determining factors include the volume of old growth forest, present age of forest and anticipated yield of each area of new forest at its maturity. Holders of tree farm licenses or forest management agreements are required to calculate allowable annual cut every five years for approval by the provincial Ministry of Forests.

AOX: Adsorbable Organic Halides. A measurement of a mixture of several hundred chlorinated compounds in the water effluent produced at bleaching plants.

Best Management Practice: A series of forest practices thought to be the best possible for a specific region or forest type.

Biomass: Total amount of forest wood used as fuel for power boilers to produce steam to generate energy, heat and electricity.

BOD: Biochemical Oxygen Demand. A method of determining the effect of organic material in effluent on receiving waters, by measuring the consumption of oxygen. Oxygen is required by aquatic life.

Cogeneration: Generation of power in an industrial power plant to produce both steam and electricity for in-plant use, as well as for sale to outside utility companies.

Crown Land: In Canada, land which is owned by the provincial or federal governments. Most of the productive forest land in Canada is owned by the government (Crown) and leased to the forest industry for fibre production in return for stumpage or royalty payments.

Cutsize: Fine paper cut to specific end-use dimensions on a paper trimmer, usually the guillotine or rotary type.

Deinked Pulp: Pulp made by processing recycled paper to remove ink and other contaminants.

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization.

Emissions: Residue material released into the atmosphere by way of steam or smoke discharged from manufacturing processes.

Fbm: Foot-board measure (board foot) equal to one square foot of lumber one inch thick (Mfbm is equal to 1,000 board feet).

Fossil Fuels: Fuel derived from petroleum or coal such as diesel, gasoline or heating oil.

Freehold Land: Land that is wholly-owned by the company.

GJ: Gigajoule. A unit of heat equal to one billion joules.

Greenhouse Gases: A number of gases including carbon dioxide, carbon monoxide and CFCs, among others, which are thought to contribute to global climate change by trapping heat in the atmosphere.

Groundwood Paper: Paper with mechanical pulp as its major component, which differs from newsprint in brightness, surface characteristics and end uses.

ha: Hectare. Equal to 2.471 acres.

ISO: Acronym for the International Organization for Standardization, a regulating body based in Geneva that presides over international standardization of management systems. To be ISO-certified, a system must comply with a set of standards that are recognized worldwide for efficiency and quality.

Kraft Pulp: Wood pulp produced by an alkaline cooking process using sodium sulphate. The pulp is used to produce paper, paperboard and related products.

LWO: Lightweight opaque. Uncoated and film-coated offset freesheet printing paper with basis weights of less than 38 pounds. Examples include bible and dictionary papers.

m^3: Cubic metre. Equal to 35,315 cubic feet (220 imperial gallons).

Market Pulp: Pulp sold on the open market between non-affiliated companies.

Material Efficiency: A ratio of products plus by-products to wastes used to determine the efficiency of manufacturing processes. Higher numbers indicate greater material efficiency.

MDF: Medium density fibreboard. A panelboard produced by chemically bonding wood fibres and fibre bundles of uniform size under heat and pressure.

Megawatt: 1,000 kilowatts of electric power, or equivalent to the power required for 10,000 one-hundred-watt lightbulbs.

Msf: Measurement for panel products equal to 1,000 square feet.

NSR: Not Sufficiently Re-stocked. Harvested areas in which reforestation, whether by planting or natural regeneration, has not yet been successful, and which will require additional efforts.

OSB: Oriented strand board. A panelboard produced by chemically bonding strands of wood under heat and pressure.

OSHA Recordable Rate: The U.S. Occupational Safety and Health Administration index which tracks the number of recordable work-related health and safety incidents per 200,000 hours worked.

Panelboards: Plywood, oriented strand board, particleboard and medium density fibreboard.

Paperboard: A thick paper used to produce rigid boxes for a variety of packaging uses.

Particleboard: A product made by bonding clean sawdust and planer shavings with wax and resin to produce a panel with surface consistency ideal for furniture and other industrial applications.

Particulate: Finely divided solid or liquid particles in gaseous emissions from various areas of a mill, including chemical droplets, dust mists, fogs, fumes and smoke.

Plywood: A glued wood panel made up of thick layers of veneers or piles of solid wood.

ROCE: Return on Capital Employed calculated as EBITDA divided by total assets, less cash and accounts payable.

Silviculture: The science of forest management.

Super-Calendered Release Papers (SC Release): A highly glazed type of paper made especially to be easily removed from and having very little attraction to sticky surfaces (e.g., the silicon-treated sheets that hold self-adhesive labels like nametags, luggage labels and price-tag stickers).

Text and Cover Papers: Uncoated fine papers used for brochures, books, catalogues, direct mail, annual reports and stationery.

Tonne: Metric tonne equal to 1,000 kilograms or 2,204 pounds (1,102 imperial tons are equal to 1,000 metric tonnes).

Toxicity: A measure of the ability of a particular chemical or effluent to cause death or impairment to an animal or plant. There are many toxicity tests in use for different organisms. In Canada, governments typically use a test which exposes rainbow trout to industrial effluents to determine the toxicity of the effluent.

TRS: Total Reduced Sulphur. Sulphur compounds produced in the kraft pulping process, which are then emitted in a vapour.

TSP: Total Suspended Particulate. A measure of the solid particles (wood, process dust, and smoke) found in air emissions.

TSS: Total Suspended Solids. Finely dispersed solid material in effluents; low concentrations are desirable.

VOCs: Volatile Organic Compounds. A large family of carbon-containing compounds. When emitted into the atmosphere, some contribute to ozone depletion; some may be toxic in high concentrations. Most contribute, in varying degrees, to the formation of ground level ozone in highly populated areas.

Wet Electrostatic Precipitators: An air pollution control device that removes particulate matter by imparting an electrical charge to particles in a moisture rich gas stream for collection on an electrode. The electrode is periodically cleaned by re-circulating wash water.

Woodfree Paper: Also known as fine paper, made with bleached chemical pulp as its major raw material.

Yield: A calculation of the efficiency of a production process expressed as a ratio of the product produced divided by the amount of incoming raw material. A yield of 50% indicates that one half of the raw material does not become part of the final product.

Officers of the Company

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Chief Executive Officer
Officer since 1993

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Financial Planning
Officer since 1999

Charles B. Gordon
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Corporate Affairs
Officer since 1999

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Officer since 1994

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Assistant Corporate Secretary
Officer since 1993

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President, Fraser Papers Inc.
Officer since 1998

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Senior Vice President, Nexfor Inc.
President, Norbord Industries Inc.
Officer since 1999

Glen H. McMillan
Controller
Officer since 1999

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Vice President, Environment
Officer since 1993

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Managing Director,
CSC Forest Products Limited
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Human Resources
Officer since 1988

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Chief Financial Officer
Officer since 1992

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Toronto, Ontario
Partner, Miller Thomson
Director since 1991

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(1) Audit
(2) Corporate Governance
(3) Environment, Health and Safety
(4) Human Resources
(5) Pension

For full descriptions of the Board committees, please see Nexfor's Management Proxy Circular.

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Nexfor 1999 Annual Report Feedback

Nexfor

About the Report

Please take a few moments to share your thoughts on this year's report. If you would prefer to respond by e-mail, do so at the Nexfor Web site at www.nexfor.com.

Please rate this report on providing useful information in the following areas:

(Scale of 1–5: very poor, poor, fair, good, excellent)

1 2 3 4 5 Overall financial information
1 2 3 4 5 Nexfor's business strategy
1 2 3 4 5 Environmental aspects of Nexfor's operations
1 2 3 4 5 Corporate accountability on environmental matters
1 2 3 4 5 Nexfor's commitment to improving shareholder value

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1 2 3 4 5 All
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1 2 3 4 5 Operations Review
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1 2 3 4 5 Financials
1 2 3 4 5 Environment

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You are a:

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☐ Employee
☐ Financial Analyst
☐ Prospective Shareholder
☐ Government representative
☐ Media representative
☐ ENGO representative

Do you use the Internet to gather information?

☐ Often ☐ Sometimes ☐ Never

Have you ever visited Nexfor's Web site, www.nexfor.com?

☐ Yes ☐ No

We welcome any comments:

____

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(416) 365-0705
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(Toll-free in Canada)

Paper and Pulp

Fraser Papers Inc.
Stamford, Connecticut
(203) 705-2800

Paper sales:
1-800-543-3297

Pulp sales:
Thurso, Québec
(819) 985-5007

European Panels

CSC Forest Products Ltd.
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011-44-1786-812921

OSB and Panelboard sales:
Inverness, Scotland
011-44-1463-792424

South Shields, England
011-191-454-5851

Zaandam, Netherlands
011-31-251-228-080

South Molton, England
011-1769-572-991

Investor Information

2000 Financial Calendar (dates on or about)

Year End Earnings Release	February 4
Annual Meeting	April 27
Q2 Earnings Release	July 20
Q3 Earnings Release	October 19
Nexfor Year End	December 31

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Annual Meeting
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at 10:00 a.m.
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